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A COMPARATIVE STUDY OF
CANADIAN AND WEST GERMAN
FOREIGN AID PROGRAMMES

BY

BERND ZECHEL, B.A.

A Thesis

Submitted to the Department of Economics in
Partial Fulfillment of the Requirements for
the Degree of Master of Arts at the
University of Windsor

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1969

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Approved by:

W. Phillips

M. Vallentich

A. C. Chyffruski

259866

ABSTRACT

This study compares and evaluates the official foreign aid programmes of Canada and West Germany between 1962 and 1967. The magnitude and quality of their relative contributions are compared and the nature, terms, conditions, and geographic distribution of their aid to less-developed countries are examined.

The use of a discount present value method indicates that there is a discrepancy between the real cost of aid to the donors and their reported nominal aid totals. However, Canadian aid has been predominantly in the forms of grants and soft loans, which entailed a greater burden than that borne by West Germany, which extended its aid primarily in the form of hard loans. In order to bring the West German contribution up to that of Canada there must be a substantial increase in grants and a softening of terms in the West German aid programme.

During this period the magnitude of the flows of development aid from both donors increased, with Canada showing the greater relative improvement. There was also a gradual improvement in the terms of aid, but loans on commercial-type projects continue to bear high interest rates. The geographic distribution of their public bilateral contributions shows that aid is being concentrated on a smaller number of recipients. Extensive use is being made

of local industrial and regional development banks and intermediate credit institutions for administering bilateral aid. Aid to education continues to be the dominant feature of their rapidly expanding technical assistance. Integrated projects which incorporate both capital aid and technical assistance increasingly receive priority by both donors. Aid tying remains an important feature of both aid programmes and both donor countries should take steps towards removing tying restrictions which could at first be limited to loans and credits.

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CHAPTER I

INTRODUCTION

Aid as a flow of resources from the developed countries to the less-developed nations of the world has grown significantly in both volume and importance in recent years. By now the majority of developed nations have recognized their obligation to assist in the economic development of the less-developed countries (LDC's) and they have become active participants in the international aid effort. The need for development assistance derives from the economic inequality among nations - an inequality which exists primarily between the industrially-advanced nations and those countries on a lower level of economic development. It is through international aid, that resources are made available to the LDC's in a concerted effort to bring them up to an economically equal position with the developed nations.

In the absence of international assistance, these less-developed nations would have to rely on their own meagre resources or on the investment resources obtainable from abroad on a normal commercial basis. Clearly, these would be insufficient for their needs. Consequently, foreign aid has become both a growing and necessary factor in international relations. It allows the developing nations to increase

investment without having to reduce their already low levels of consumption. Furthermore, it is hoped that a self-generating growth process will arise in the recipient's economy, permitting both increased consumption and investment out of the anticipated increases in output, leading eventually to a reduced dependence on foreign assistance.

The impetus behind foreign aid has been a mixture of humanitarian reasons and specific national interests. In some instances the motivation of the donors is rooted in a colonial link between donor and recipient. In other cases, potential political advantages and long-run commercial considerations are clearly the dominant motives behind foreign aid contributions.¹ Although there are various motives behind the flow of resources to less-developed countries some of which are more readily apparent than others, these resources would not have been made available to them on a normal commercial basis under similar terms and conditions and for the same purposes.

The purpose of this study is to compare and evaluate the official foreign aid programmes of Canada and West Germany between 1962 and 1967. This comparison involves

¹ Harry G. Johnson, Economic Policies Toward Less Developed Countries (Washington, 1967), p. 1.

an analysis of the magnitude and quality of their relative contributions and it provides an examination of the nature, terms, conditions, and geographic distribution of their aid. It is emphasized that the scope of this study is limited to an analysis of the aid programmes from the donors' side. No specific attempt is made to evaluate the actual effectiveness of their respective aid contributions on the recipients' economies.

To avoid ambiguity, certain terms used in this study must be defined here. The first of these is the term "aid". In common usage aid refers somewhat loosely to a variety of financial and other resource contributions from the donor nations to the less-developed recipients. A stricter definition is necessary in order to facilitate discussion, especially if international comparisons of aid flows are to be made. As a first approximation for the purpose of this study, "aid" will refer to the flow of official long-term financial resources from the developed countries to multilateral agencies and less-developed countries.² However, the term "aid" will be used throughout this study as a convenient shorthand for the general notion of economic assistance.

² See Development Assistance Efforts and Policies: 1963 Review (Paris: OECD) 1963, p. 21, for the meaning of aid.

The definition of official aid adopted by the DAC³ for the purpose of their annual review includes official capital in the form of bilateral grants and grant-like contributions. The grants may be in cash or in kind and include indemnification and reparation payments. The grant-like contributions are in the nature of loans repayable in recipients' currencies and sales of commodities for recipients' currencies. The DAC definition of official aid includes, in addition to bilateral loans with a maturity of more than one year, grants and capital subscription payments to international agencies for development purposes and official net purchases of the obligations of international institutions.⁴ However,

3 Both Canada and West Germany (the Federal Republic of Germany) are members of the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) and accordingly they report the nominal values of their foreign aid expenditures to this international body. The DAC is made up of the following fifteen countries: Australia, Austria, Belgium, Canada, Denmark, France, West Germany, Italy, Japan, the Netherlands, Norway, Portugal, Sweden, the United Kingdom, and the United States. It meets annually for an aid review, during which the policies and current aid efforts of each member are subjected to a critical examination. It reviews, compares and coordinates its members' aid programmes and generally serves as a forum for consultation in the field of assistance to less-developed countries. These comparisons are made on the basis of agreed definitions which are therefore also relevant to this study.

4 Development Assistance Efforts and Policies, 1966 Review (Paris: OECD) September 1966, p. 154. Hereafter cited as DAC, Review, 1966; also DAC Review, 1961, 1963, 1964, 1965, 1967 and 1968.

excluded are loans and credits with maturities of one year or less, government-guaranteed private export credits, insured private direct investment, and all private and international institutional assistance.⁵

This classification recognizes that various types and terms of aid have substantially different effects on donor and recipient. For example, the DAC realizes that loans repayable in soft and hard currency differ in their economic impact and therefore a separate category is provided for each. Nevertheless, these and other aid categories are then added together to form a single aid total.⁶ Although different types and forms of assistance can be added together to indicate total flows, they are not likely to be equal either in real cost to the supplier or in benefits to the recipient.

A valid comparison of national aid programs should distinguish between the nominal value of the aid contributions and their actual aid value. It is recognized that grants are generally aid to their full face value, whereas

5 The definitions adopted by the OECD and the DAC differ in only one respect, namely, the OECD includes all loans and guaranteed export credits with a maturity of more than one year. Consequently, the total reported by the DAC is slightly lower than the figure reported by the OECD in its periodic publication - The Flow of Financial Resources to Less-Developed Countries. Hereafter cited as OECD, The Flow of Financial Resources.

6 John Pincus, Economic Aid and International Cost Sharing (Baltimore, 1965) p. 114.

loans may only contain an element of aid and that an unqualified summation of the nominal value of the two aid measures is misleading. On the basis of these definitions, foreign aid is held to be a transfer of real resources between the donor and the recipient country.⁷

For international comparisons of resource flows to LDC's "the relevant measure of the contribution of foreign aid is the value or resource cost of the aid to the donor country, account being taken of the present value of future repayment of interest and principal...."⁸ This study applies the present value method to the DAC figures in order to calculate the actual aid content of a loan. Accordingly the subsidy or grant element in a loan is "the difference between the face value of future interest and amortization discounted at the lender's alternative lending rate",⁹ namely his domestic long-term interest rate.

For purposes of inter-country comparisons, not only must allowance be made for differences in the type of assistance offered, but also relative abilities to provide assistance must be taken into account. In order to assess more accurately the relative burden of aid among aid-giving

⁷ I.D.M. Little and J.M. Clifford, International Aid (London, 1965), pp. 13-14.

⁸ Johnson, Economic Policies Toward Less Developed Countries, pp. 119-120.

⁹ Pircus, Trade, Aid and Development, p. 309.

countries, national accounting aggregates are also employed as measures of capital flows to less-developed countries. Specifically, a target of one per cent of national income for developed countries was adopted by the United Nations Conference on Trade and Development (UNCTAD) in 1964. This one per cent target has since been widely used to measure and encourage expansion of the assistance efforts of donor countries. The DAC itself, although aware of the imperfections of this assistance target, recommended in a 1965 resolution that members attain or exceed the target.¹⁰ It should be noted that the target is stated as a minimum, with no upper limit, and therefore this standard should be recognized not as a ceiling but as a lower limit to a country's assistance effort.¹¹ The acceptance of a standard measure of capacity to provide assistance in this manner, means that the volume of assistance will automatically increase from year to year as economic growth proceeds in the aid-giving countries.

Certain difficulties are encountered in employing the one per cent target as a means of assessing assistance efforts in relation to the capacities of the donor countries. Since

¹⁰ DAC, Review, 1966, pp. 49-50.

¹¹ W.G. Friedman, G. Kalmanoff, and R.F. Meagher, International Financial Aid (New York, 1966), p. 396.

a considerable variety of resources are classified as aid in connection with the one per cent of national income criterion, it is once again unclear what should be included in the aid total. Consequently, there are problems of evaluating in this manner the relative efforts of the various donors. The difficulty is that countries contributing the same percentages of their national income are apparently making the same effort, although some might be extending their assistance in the form of grants whereas others provide theirs through medium-term high-interest loans. In addition, measurements of aid flows as a fixed percentage of national income for all developed countries fail to distinguish their different capacities to assist as donors.¹² Although a number of factors may have a bearing on aid-giving capacity, it is generally recognized that aid as a given percentage of national income is a greater burden for a poorer than a richer donor country. Therefore countries with relatively high per capita income would be expected to contribute a larger share of their resources to development aid.¹³

The geographic distribution of assistance is another important area examined in this study. As was noted above,

¹² Friedman, Kalmanoff, and Neagher, op. cit., p. 398.

¹³ DAC, Review, 1967, p. 176.

the flow of aid from donor to recipient depends to a large extent on factors other than economic criteria. Frequently, historical, political and commercial factors influence the distribution of the donor's assistance and once these geographic patterns are established they tend to change only very slowly. This is primarily due to there being a lengthy time-span involved in the completion of aid projects and programmes. Quite often these original development assistance efforts tend to generate additional resource flows from the same sources.¹⁴

Recently however, there has been a noticeable trend toward a greater geographical dispersion of aid. There are several reasons for this - on the one hand there is a desire by the donors for increased contacts with less-developed countries, often for commercial reasons, as well as an attempt to share their responsibilities with other donors; and on the other hand there is a widespread belief among LDC's that their best guarantee for independence lies in having a number of aid sources who can offer them more assistance and on better terms. This greater geographic dispersion is also partly the result of an increase in the volume of aid, distributed through politically-neutral multilateral agencies, and partly due to an increase in the

¹⁴ DAC, Review, 1964, p. 39.

bilateral aid programmes of individual donors.¹⁵

As a result aid recipients are now dealing with an increasing number of donors. Whereas further geographic dispersion of aid is desirable since it widens the scope of development assistance, it also leads to a growing complexity. As the need for aid makes increasing demands on the available resources, it becomes necessary to use these limited resources economically, so as to minimize duplication and waste in the aid effort. Some institutional advances have already been made towards this end, and donors have collaborated in assistance coordinating arrangements in the nature of aid consortia and consultative groups.¹⁶ There are several clear advantages in this type of approach. It permits first of all, the establishment of a set of agreed priorities for the recipient which reduces incompatible commitments. Secondly, the donors retain control over their aid funds as members of these groups and thereby are able to identify their own contributions.¹⁷

15 DAC, Review, 1964, pp. 40-41.

16 Aid Consortia are organized in order to obtain adequate external financing for a recipient's development plan. Consultative groups, a more informal arrangement, provide a framework within which donors and multilateral sources are able to consult with the recipient concerned on a range of assistance and development issues.

See DAC, Review, 1966, pp. 126-130.

17 DAC, Review, 1966, p. 124.

CHAPTER II

FINANCIAL ASSISTANCE: TARGETS AND TERMS

The volume and terms of financial assistance to LDC's by Canada and West Germany are considered here. There are two principal sections in this chapter: a comparative evaluation of the aid-giving performance of Canada and West Germany, employing the concept of a discounted present value "grant equivalent",¹ and an examination of their financial terms in relation to the objectives of the 1965 Term of Aid Recommendation of the DAC.

From the viewpoint of donor's cost, a grant extended in cash, in kind or as technical assistance involves a greater cost to the donor than loans, extended at varying interest rates, maturities, degrees of tying and modes of repayment. In contrast to grants, loans yield a steady stream of interest and amortization payments to the lender. Loans therefore contain less "real" aid and bestow a smaller real benefit upon the recipient than a comparable amount in grants. As a direct result of this wide spectrum of aid forms, aggregative assistance figures alone, only inadequately represent the flow of economic resources from donor to recipient. A standard measure is required which will convert

¹ "Grant equivalent" refers to the actual amount of "pure" foreign aid extended by the donor.

the different types and terms of development assistance to a common comparable unit.

A simple comparison of assistance totals with the donor's GNP, as in the UNCTAD target fails to present a complete and accurate picture of relative efforts and capacities. Also the working definitions of "flow of resources" used in OECD and UN statistics fail to distinguish the real aid totals involved in the same volume of a loan and a grant.

One possible measure which would make the burden of various types of aid at different terms more nearly comparable is an estimation of the grant element common to them. This involves in effect, the calculation of a comparable unit or grant element for each type of assistance. The "grant equivalent" of a loan computed in this manner takes into account simultaneously the interest rate, maturity, and grace period of a loan and expresses these in terms of a single parameter.² "Another way of expressing the concept is that it represents the sacrifice involved in lending money on the terms of the development loan rather than using it for some other purpose."³ John Pincus published the first estimate of the cost of aid to the donor in 1963,⁴ applying the discounted present value method to the 1962 nominal aid values of DAC member countries. The

2 Ohlin, Foreign Aid Policies Reconsidered, pp. 70-71.

3 OECD, The Flow of Financial Resources 1961-1965, p. 141.

4 "The Cost of Foreign Aid," Review of Economics and Statistics, XLV (November, 1963), pp. 360-367.

method to assess the comparative aid-giving performance of the two donors in the next section is similar to that of Pincus.

The Comparative Aid-Giving Performance

The use of the discounted present value method to calculate the grant equivalent percentages of loans presents a conceptual difficulty since arbitrary decisions involving the appropriate discount rate must be made. The rate used for discounting purposes should reflect the alternative rate of return that long-term public funds would have earned domestically in optimal employment. A more realistic impression of the donor's cost is achieved by comparing several alternative discount rates. When the discount rate equals the interest rate, the concessionary element in a loan is zero. If there is to be any concessionary element at all in a loan, the interest rate must be less than the discount rate. Also, longer maturity periods on loans result in a greater concessionary element to the recipient.⁵ Hence, loans with low interest rates and long repayment and grace periods contain a large concessionary element.

Three different discount rates were selected in order to reach an estimate of the cost of aid disbursed by Canada and West Germany. The discount rates of 6 and 7 per cent respectively may be assumed to approximate the average

⁵ Chlin, op. cit., p. 71.

long-term borrowing rates of each country.⁶ Since it might be argued that the discount rate should include a risk premium, a discount rate of 10 per cent was used in the calculations. It may also be taken to reflect the net rate of return on capital in the two economies.

Table 1 summarizes the official aid flow of the two donor countries in the period 1962 to 1967. Both donors increased their official assistance to LDC's during this period with Canada showing the more significant increase in its contribution. In fact, Canadian aid almost quadrupled in this period. In contrast, West Germany's initial level was already very high in 1962 but it decreased and did not exceed the 1962 figure again until 1965.

One of the major goals of the DAC is to achieve a fair distribution of the burden of aid among its members. Nominal aid, however, expressed as a percentage of the donor's GNP as in the UNCTAD one per cent formula, is a poor measure of the burden, unless it is implicitly assumed that interest and capital will never be repaid. Employing the discounted present value method, permits analysis of the

6 The average yields of long-term government bonds (in per cent per annum) for Canada and West Germany were as follows:

	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Canada	5.07	5.19	5.22	5.74	5.84
West Germany	6.10	6.20	6.70	7.60	7.01

(UN Monthly Bulletin of Statistics (May, 1968), p. 212 and (May, 1969), p. 220.)

TABLE 1

THE COMPOSITION OF OFFICIAL AID DISBURSED BY CANADA AND WEST GERMANY, 1962 - 1967
(Million US Dollars)

Category	Canada						West Germany					
	1962	1963	1964	1965	1966	1967	1962	1963	1964	1965	1966	1967
Total Official, net (I + II)	54.4	98.0	127.7	124.3	211.7	213.0	467.8	437.2	423.2	471.6	485.9	546.8
Total official, gross	59.6	99.9	131.1	136.0	237.2	231.1	519.4	496.1	527.4	636.6	594.8	678.3
I. Total Official Bilateral, net	41.9	90.2	111.3	95.9	180.5	166.9	365.4	411.9	413.5	432.2	449.6	480.4
Grants and grant-like contributions ^a	26.7	51.4	64.2	67.4	154.6 ^c	131.6	127.2	154.4	155.6	175.8	112.7	135.1
Government long-term capital, net	15.2	38.8	47.1	28.5	25.9	35.3	238.2	257.5	257.9	256.4	336.9	345.3
Loans, net ^b	15.2	38.8	47.1	28.5	25.9	35.3	238.2	257.5	257.9	256.4	336.9	345.3
Loans extended	20.4	40.7	50.5	40.2	51.4	53.4	289.8	316.4	362.1	421.4	445.8	476.8
Amortization received	5.2	1.9	3.4	11.7	25.3 ^d	18.1	51.6	48.6	104.2	165.0	108.9	131.5
Other, incl. central monetary institutions, net								-10.3				
III. Total Official Multilateral, net	12.5	7.8	16.4	28.4	31.2	46.1	102.4	25.3	9.7	39.4	36.3	66.4
Grants & capital subscription	12.5	12.8	16.4	28.4	31.2	46.1	105.4	30.3	24.7	37.9	46.3	72.4
IBRD					4.2		7.8	7.8			2.3	3.4
IDA	7.2	7.3	7.3	13.9	9.6	18.5	10.2	10.1	10.2	24.2	24.1	24.2
EEC							77.0				2.3	26.2
UN Agencies	5.3	5.5	9.1	14.5	16.2	26.4	10.4	12.4	14.5	13.7	14.2	15.2
Asian Development Bank					1.2	1.2					3.4	3.4
Bonds, loans and participations		-5.0					-3.0	-5.0	-15.0	1.5	-10.0	-6.0
IBRD		-5.0					-3.0	-5.0	-15.0	1.5	-10.0	-6.0

Sources: OECD, The Flow of Financial Resources 1961 - 1965 (Paris, 1967), pp. 212 and 215; and DAC, Review, 1968, pp. 258-61.

- (a) Includes loans repayable in recipients' currencies and transfers of resources through sales for recipients' currencies.
 (b) "Net", in OECD/DAC terminology, means net of amortization but not of interest.
 (c) Including \$9.3 million debt forgiveness (estimated to be \$8.7 million principal and \$0.6 million interest).
 (d) Including \$8.7 million amortization counterpart for debt forgiveness.

grant elements in the aid programmes of donor countries.

The following series of tables,⁷ using the data for the years 1962 to 1967 show that the real cost to the donor of the nominal aid flows, and the real benefits to the recipients, were in fact considerably below the nominal aid total. Since no attempt was made to adjust for the excess cost of aid tying, the benefits to the recipients were lower yet.

Average interest rates and maturities of official bilateral loans for the two donors are given in Table 2. An additional column showing the overall performance of DAC countries permits a comparison of the hardness and softness of Canadian and West German lending policies.

Table 3 shows different estimates of the grant equivalent of loan disbursements reported to the DAC for 1963 to 1967. A discount formula developed by Ohlin in Foreign Aid Policies Reconsidered was used to calculate the grant equivalent of the official loans of the two donors.

For a discount rate of 6 per cent the formula is:

$$g = (q-i) \left(2.5 + \frac{T}{5} \right) \left(1 + \frac{G}{T} \right)$$

Here, g - is the grant element,

⁷ The method of estimating the cost of aid in these tables is an adaptation of the method employed by Little and Clifford, op. cit., pp. 63-67 and pp. 73-77.

TABLE 2

THE FINANCIAL TERMS OF OFFICIAL BILATERAL LOAN COMMITMENTS, 1962 - 1967

Year	Canada			West Germany			Total D.A.C. Countries		
	Weighted Average Interest Rates (Per Cent)	Weighted Average Maturity Periods (Years)	Weighted Average Interest Rates (Per Cent)	Weighted Average Maturity Periods (Years)	Weighted Average Interest Rates (Per Cent)	Weighted Average Maturity Periods (Years)			
1962	6.0	11.6	4.4	15.2	3.5	24.5			
1963	6.0	12.5	4.3	18.5	3.3	25.1			
1964	4.7	25.1	4.0	18.1	3.1	28.4			
1965	3.4	32.9	4.2	16.9	3.6	22.3			
1966	2.4	34.3	3.3	21.2	3.1	23.5			
1967	3.4	30.9	4.3	19.0	3.8	23.4			

Source: DAC, Review, 1967, p. 76 and Review, 1968, p. 62.

- q - the rate of discount,
- i - the interest rate,
- T - the maturity in years, and
- G - the grace period by which amortization is deferred

This formula was tested in application and then adapted for the purposes of Table 3. On the basis of the information in Table 2 and Table 25 it was concluded that the generalized formula

$$g = (q-i) \left(2.5 + \frac{T}{q-1} \right) \left(1 + \frac{G}{T} \right)$$

would approximate the results obtained by Ohlin and would not distort these significantly. In Table 3, this general formula was used for the discount rates of 7 and 10 per cent.

In order to arrive at an estimate for the grant equivalent of loan disbursements in a particular year, the country's total gross lending for more than one year (Loans extended) was treated as a single loan, whose maturity and interest rate was assumed to be the same as the average maturity and interest rate of that country's total loan commitments in the previous year. For example, the following calculation yields the first entry in the 1965 column for Canada in Table 3.

Where,

$$\begin{aligned}
 q &= 6.0\% & g &= (q-i) \left(2.5 + \frac{T}{q-1} \right) \left(1 + \frac{G}{T} \right) \\
 i &= 4.7\% & &= (6.0-4.7) \left(2.5 + \frac{25.1}{5} \right) (1 + 0) \\
 T &= 25.1 \text{ yrs.} & &= (1.3) (2.5 + 5.02) \\
 & & &= (1.3) (7.5) \\
 & & &= 9.8\%
 \end{aligned}$$

Also, Canadian loans extended in 1965 from Table 1 are \$40.2 million. Hence, $\$40.2 \times .098 = \3.9 million. The grant equivalent of each loan is therefore the difference between the face value of the loan and the discounted value of repayments of interest and principal.

With respect to the repayment patterns of a loan it was assumed that repayments were made in the form of equated annual instalments of capital and interest; and also three alternative grace periods of zero, five and ten years were assumed between disbursement and the first repayment.

Table 3 shows that for all three discount rates chosen the grant equivalents for the two donors were substantially less than the unadjusted flows as reported to the DAC.

Table 4 shows grants by the two donors for 1963 to 1967. Taking the entries in Table 1 in sequence, the estimates were derived as follows:

(1) "Grants and grant-like contributions", were valued as shown in the table. This decision was based on the following OECD definitions:

Bilateral Grants include a variety of transactions: cash contributions (not requiring repayment) for development projects and programmes, various types of economic support and relief, technical assistance and related activities; intergovernmental reparations and indemnification payments; and contributions in kind for development, welfare and relief purposes.

Grant-like Contributions include loans for which repayment is not required in hard currency, and use of local currencies derived from the sale of commodities, in a recipient country and constituting the legal property of the donor country. (The Flow of Financial Resources 1961-1965, p. 169.)

(2) "Government long-term capital net" was employed in the calculations for Table 3.

(3) "Grants and capital subscription" were treated as grants in their entirety and added to bilateral grants.

(4) "Bonds, loans and participations", are purchases and sales from multilateral agencies. This is not a very large item and has therefore been excluded.

(5) All other official and private transactions were excluded.

Official bilateral grants and grant-like contributions by Canada more than doubled in the five-year period. West Germany's, on the other hand, decreased from \$154.4 to \$135.1 million. Official multilateral disbursements as grants and capital subscriptions more than tripled for Canada and more than doubled for West Germany. As a result, total grants nearly tripled for Canada and increased only slightly for West Germany.

In Table 5 the figures of Tables 3 and 4 are combined to show the total cost of official contributions, to the two donors, at varying rates and grace periods. These are then compared with the total aid figures reported to the DAC. As the Canadian flow of financial resources contains a substantial proportion of grants and grant-like contributions, the result is a high grant element when the calculated grant equivalent of the loans is included.

West Germany's contributions involve a smaller grant

TABLE 3

GRANT EQUIVALENT OF LOAN DISBURSEMENTS BY CANADA AND WEST GERMANY, 1963-1967
(Million U.S. Dollars)

Rate of Discount and Average Grace Period	Canada					West Germany				
	1963	1964	1965	1966	1967	1963	1964	1965	1966	1967
I. 6 per cent										
G = 0	0	0	3.9	12.1	18.0	27.8	38.0	51.4	47.3	86.3
G = 5	0	0	4.7	14.0	20.7	36.1	48.2	65.7	61.5	103.5
G = 10	0	0	5.5	15.8	23.4	46.2	58.7	79.6	75.8	129.7
7 per cent										
G = 0	1.8	2.3	6.2	14.8	20.1	41.1	54.7	69.5	66.0	105.9
G = 5	2.6	3.2	7.4	17.0	23.2	53.5	69.5	88.9	85.6	126.8
G = 10	3.3	4.2	8.7	19.2	26.2	68.3	84.4	107.9	105.7	158.8
10 per cent										
G = 0	6.2	7.9	11.3	20.9	25.6	74.4	94.2	113.8	113.2	156.4
G = 5	8.8	11.0	13.6	24.0	29.4	96.8	119.5	145.8	147.1	187.9
G = 10	11.8	14.2	15.8	27.1	33.2	122.8	144.8	176.6	181.0	234.6
II. Loans (gross) as reported to DAC	40.7	50.5	40.2	51.4	53.4	316.4	362.1	421.4	445.8	476.8

Note: Source of data and formulae stated in text;
gross loans taken from Table 1.

TABLE 4

GRANTS DISBURSED BY CANADA AND WEST GERMANY, 1963-1967
(Million US Dollars)

Category	Canada					West Germany		
	1963	1964	1965	1966	1967	1963	1964	1965 1966 1967
I. Official Bilateral								
Grants and grant-like contributions	51.4	64.2	67.4	154.6	131.6	154.4	155.6	175.8 112.7 135.1
II. Official Multilateral								
Grants and capital subscriptions	12.8	16.4	28.4	31.2	46.1	30.3	24.7	37.9 46.3 72.4
Total Grants (I + II)	64.2	80.6	95.8	185.8	177.7	184.7	180.3	213.7 159.0 207.5

Source: Table 1

TABLE 5

TOTAL COST OF OFFICIAL AID DISBURSEMENTS, 1963-1967
(Million US Dollars)

Rate of Discount and Average Grace Period	Canada					West Germany				
	1963	1964	1965	1966	1967	1963	1964	1965	1966	1967
I. 6 per cent										
G = 0	64	81	100	198	196	213	218	265	206	294
G = 5	64	81	101	200	198	221	229	279	221	311
G = 10	64	81	101	202	201	231	239	293	235	337
7 per cent										
G = 0	66	83	102	201	198	226	235	283	225	313
G = 5	67	84	103	203	201	238	250	303	245	334
G = 10	68	85	105	205	204	253	265	322	265	366
10 per cent										
G = 0	70	89	107	207	211	259	275	328	272	364
G = 5	73	92	109	210	215	282	300	360	306	395
G = 10	76	95	112	213	219	308	325	390	340	442
II. Total official aid (gross) as reported to the DAC	100	131	136	237	231	496	527	637	595	678

Source: I. Total grant equivalent = total grant disbursements (Table 4) + grant equivalent of loan disbursements (discounted at 6%, 7% and 10% respectively).

II. Table I

All figures in Table 5 are rounded to the nearest million dollars.

TABLE 6

GRANT EQUIVALENT OF NOMINAL AID DISBURSED AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

Rate of Discount and Average Grace Period	Canada					West Germany				
	1963	1964	1965	1966	1967	1963	1964	1965	1966	1967
I. 6 per cent				(Per Cent)				(Per Cent)		
G = 0	0.15	0.18	0.20	0.36	0.34	0.22	0.20	0.23	0.17	0.24
G = 5	0.15	0.18	0.20	0.37	0.34	0.23	0.22	0.24	0.18	0.25
G = 10	0.15	0.18	0.20	0.37	0.35	0.24	0.22	0.26	0.19	0.27
7 per cent										
G = 0	0.16	0.18	0.21	0.37	0.34	0.23	0.22	0.25	0.18	0.25
G = 5	0.16	0.18	0.21	0.37	0.35	0.25	0.24	0.26	0.20	0.27
G = 10	0.16	0.19	0.21	0.38	0.35	0.26	0.25	0.28	0.21	0.30
10 per cent										
G = 0	0.17	0.20	0.22	0.38	0.36	0.27	0.26	0.29	0.22	0.30
G = 5	0.18	0.20	0.22	0.39	0.37	0.29	0.28	0.31	0.25	0.32
G = 10	0.18	0.21	0.23	0.39	0.38	0.32	0.31	0.34	0.28	0.36
II. Nominal Aid(gross) as Per- centage of GNP(per cent)	0.24	0.29	0.28	0.44	0.40	0.52	0.50	0.56	0.49	0.56
III. Gross National Product (Million US Dollars)	40,171	44,255	48,283	53,734	57,382	94,874	103,969	112,892	120,804	120,975
IV. Estimates of Midyear Population(Thousand)	18,925	19,271	19,604	20,050	20,441	55,430	56,097	56,839	57,485	57,699
V. Estimated National Income Per Head (US Dollars)	2,123	2,296	2,463	2,680	2,807	1,712	1,853	1,986	2,101	2,097

Source: I.,

Grant equivalent (from Table 5) x 100 = Grant Equivalent as a percentage of GNP.

GNP

II. Nominal aid as reported to DAC (from Table 5) x 100 = Nominal aid as a percentage of GNP.

GNP

III. GNP calculated by dividing GNP figures by US exchange rates. All data from UN Monthly Bulletin of Statistics (various issues).

IV. UN Monthly Bulletin of Statistics (April, 1969), p. 1.

V. Row III divided by Row IV.

TABLE 7

COMPARATIVE AID-GIVING PERFORMANCE OF CANADA AND WEST GERMANY, 1963-1967

Country (ranked by National Income per Head) ^a	Estimated National Income per Head (in US Dollars) ^b	Cost of Aid as a Percentage of GNP ^c		Relative Position	
		Low	High	Low Cost	High Cost
I. CANADA					
1963	2,123	0.15	0.18	2	2
1964	2,296	0.18	0.21	2	2
1965	2,463	0.20	0.23	2	2
1966	2,680	0.36	0.39	1	1
1967	2,807	0.34	0.38	1	1
II. WEST GERMANY					
1963	1,712	0.22	0.32	1	1
1964	1,853	0.20	0.31	1	1
1965	1,986	0.23	0.34	1	1
1966	2,101	0.17	0.28	2	2
1967	2,097	0.24	0.36	2	2

Source: a Canada ranks first in order of wealth or National Income Per Head.

b Table 6, line V.

c Table 6, Part I.

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element and its financial terms are relatively harder.

Thus, on both counts, Canada therefore has a higher cost of aid than West Germany since it transferred more "real" aid to LDC's.

In Table 6 the nine different estimates of the cost of aid disbursements for the two donors are shown, together with their GNP's, nominal aid levels and population estimates. Also included is the estimated national income per head which is assumed to reflect their respective levels of wealth.

Canada showed a significant increase in its official aid contributions from 0.24% of its GNP in 1963 to 0.40% in 1967. In contrast, West Germany had a higher initial percentage but this increased only slightly over the period. Even with the relatively high discount rate of 10% neither country's overall lending programme had a grant element equivalent to more than 0.39%. In actuality, however, the 6 per cent rate of discount is applicable to Canada from 1965 to 1967 and this shows a significant discrepancy when the grant equivalent percentage is compared to the nominal aid percentage in these years. Similarly, in West Germany's case, a 7 per cent discount rate is applicable for the same period and there exists a greater gap between the grant equivalent based on this rate and the nominal aid percentage.

In Table 7 the highest and lowest of the estimated cost of aid are compared as a percentage of each donor's GNP. First, Canada, because of its higher annual national

income per head (which is assumed to reflect its level of wealth), would be expected to contribute more aid than West Germany. Next, the donors are ranked for both low and high cost estimates. On this basis of cost or grant element, the two countries reverse positions. Whereas, West Germany had the higher ranking from 1963 to 1965, despite its relatively lower per capita income, Canada had the better relative position in 1966 and 1967. If account is taken only of wealth, then Canada was the more generous donor in 1966 and 1967.

The Terms of Aid

In July 1965, the DAC adopted a Recommendation on Financial Terms and Conditions which specified for the first time certain numerical targets for financial assistance which members should try to achieve.⁸ These targets were based on the average terms of DAC member countries during 1964 and represented an attempt to achieve more lenient financial terms among its members.

The arithmetic targets stipulated in the 1965 Recommendation were as follows:
that DAC Members should either:

a) provide 70 per cent or more of their commitments in the form of grants;

or:

- b) i) provide 81 per cent of total commitments as grants or loans at 3 per cent interest charges or less;
ii) provide 82 per cent of total commitments as grants or loans with repayment periods of 25 years or more;
iii) attain a weighted average grace period of 7 years.⁹

9 DAC, Review, 1965, pp. 117-120.

10 DAC, Review, 1967, p. 80.

Several countries have improved their terms of financial assistance in the meantime. Even before the 1965 Recommendation was adopted by the DAC, Canada had initiated major policy changes in its foreign aid programme. Late in 1964, it introduced a soft loan programme which had terms of 50 years maturity, including a ten year grace period, and 0.75 per cent interest or service charge. These have since been further improved by eliminating the three quarters of one per cent service charge. A semi-soft loan at 3 per cent interest with a maturity of 30 years and a 7-year grace period was introduced in 1966. "These were designed for countries whose financial situation indicated they could service somewhat higher repayment obligations."¹⁰

Table 8 shows Canadian and West German compliance with the 1965 Terms of Aid Recommendation. Canada easily qualified under the grant test of 70 per cent in 1966. As a result it was exempt from the application of the other three tests, although it could have qualified on the grant plus loan percentages in 1966 as well. It did not, however, comply with any of the recommendations in the two previous years and its performance worsened again in 1967.

¹¹ Canada, The Senate of Canada, Proceedings of the Standing Committee on External Relations (Ottawa, 1967), p. 38. Hereafter referred to as Standing Committee on External Relations.

TABLE 8

COMPLIANCE WITH THE 1965 DAC RECOMMENDATION ON TERMS OF AID, 1964-1967

TERMS OF AID	Canada				West Germany			
	1964	1965	1966	1967	1964	1965	1966	1967
	(Per Cent)				(Per Cent)			
Grants as a Percentage of Total Commitments	50.8	54.1	77.0	48.6	49.5	42.6	41.9	35.3
Grants and Loans at Interest Rate of 3% or Less as Percentage of Total Commitments	63.3	77.1	91.2	71.9	78.3	70.5	86.5	68.0
Grants and Loans with Maturity of 25 Years or More as Percentage of Total Commitments	63.3	77.1	91.2	71.9	62.4	47.5	70.6	66.9
Weighted Average Grace Period of Loan Commitments (Years)	4.9	6.3	6.5	4.4	4.4	3.6	5.6	4.9

Source: DAC, Review, 1968, p. 297.

Note: The Recommendation, adopted in July 1965 calls for compliance within three years. Its requirements are satisfied either if the grant percentage is 70% or more, or if all three alternative provisions relating to loans and grants are fulfilled. These alternative provisions are:

- i) At least 81% of official commitments as grants or loans at 3% interest charges or less
- ii) At least 82% of total commitments as grants or loans with a maturity of 25 years or more
- iii) A weighted average grace period of 7 years or more.

West Germany was considerably short of meeting the grant test in the four years. In fact, its performance in relation to this criterion also worsened in 1967. It did, however, qualify on the interest rate criterion in 1966. On the basis of these numerical targets for financial assistance, Canada's performance was the better one relative to West Germany's.

Summary

The relative performance of Canada and West Germany in respect to various targets and terms of official financial assistance was evaluated in this chapter. First, a comparative evaluation of the aid-giving performance of the two donors using the grant element as a measure of average financial terms (which takes into account all aspects of terms) formed the central analysis of this chapter. It was noted that both countries had increased the volume of their official assistance, with Canada showing the greater relative increase, although West Germany had initially the higher volume. In comparing the nominal aid value expressed as a percentage of GNP and the discounted value, the real cost of the nominal aid flows from the two donors was seen to be considerably below the nominal aid totals. It was concluded that on the basis of this criterion Canada was shouldering a greater burden than West Germany since it was in fact transferring more "real" aid. Second, in relation to the objectives of the 1965 Terms of Aid Recommendations of the DAC, Canada qualified under the grant test of providing 70 per cent or more of its commitments of aid in the form of grants in 1966, whereas West Germany failed to meet the grant test but qualified under the interest rate criterion in that year. In the other three years, neither country qualified under any of the criteria and indeed their performance worsened in 1967. Based on

these numerical targets for financial assistance, Canada's performance was better relative to that of West Germany.

On the basis of the relative comparisons discussed in this chapter it may be concluded that Canada, in spite of a lower volume of aid, actually provided more "real" aid because its aid was largely in the form of grants and soft-term loans to less-developed countries. West Germany, with a greater volume of aid, actually provided less "real" aid because its financial assistance contained a much smaller grant element and its development loans, which formed a larger part of the total aid than grants, were made at harder terms generally, and therefore involved a smaller resource cost.

CHAPTER III

THE STRUCTURE OF THE AID PROGRAMMES

Each official aid programme has its own characteristics which remain largely obscured by a summary statistical treatment. Whereas, the previous chapter has dealt with targets, terms and the overall volume of assistance, this chapter will examine the structural components of the two assistance programmes.

Financial aid and technical assistance are the main forms in which foreign aid is extended to LDC's. Both are supplied bilaterally (directly between the donor and recipient country) and multilaterally (through international institutions). Most recipient countries favour multilateral aid since it is less likely to be politically motivated. Donor countries prefer to extend their assistance through bilateral programs since it permits some control over the funds, and also identifies the aid activities of the donor. Also, grants are generally preferred by LDC's, since they do not involve a claim on their resources as loans do because of repayment requirements.

Official Bilateral and Multilateral Disbursements

Tables 9 and 10 depict the main elements of the two official aid programmes. Total Canadian disbursements of

TABLE 9
OFFICIAL CANADIAN DISBURSEMENTS BY TYPE OF TRANSACTION, 1962-1967

Type of Transaction	1962		1963		1964		1965		1966		1967	
	Million US \$	% of Total	Million US \$	% of Total	Million US \$	% of Total	Million US \$	% of Total	Million US \$	% of Total	Million US \$	% of Total
BILATERAL GRANTS	26.7	45%	51.4	51%	64.2	49%	67.4	49%	154.6	65%	131.6	57%
Technical Assistance	4.2	7	5.9	6	8.3	6	12.7	9	19.2	8	22.7	10
Capital Projects	10.7	18	21.6	21	21.9	17	20.4	15	21.6	9	34.6	15
Programme Assistance, Contributions in Kind, and Other of which:	11.8	20	24.0	24	34.0	26	34.4	25	113.8	48	74.3	32
Food Aid	0.7	1	3.8	4	15.7	12	19.8	14	88.3	37	74.1	32
Other Commodities	11.1	19	20.3	20	18.3	14	14.5	11	16.2	7	0.2	
Debt-Forgiveness									9.3	4		
BILATERAL LOANS, GROSS	20.4	34	40.7	41	50.5	38	40.2	30	51.4	22	53.4	23
Export Credits (more than 5 years)	20.4	34	40.7	41	50.5	38	39.1	29	41.2	18	33.2	14
Development Loans, gross							1.1	1	10.2	4	20.2	9
MULTILATERAL CONTRIBUTIONS	12.5	21	7.8	8	16.4	13	28.4	21	31.2	13	46.1	20
IBRD												
IDA	7.2	12	7.3	7	7.3	7	13.9	10	4.2	2	18.5	8
UN Agencies	5.3	9	5.5	6	9.1	6	14.5	11	9.6	4	26.4	11
Asian Development Bank									16.2	6		
IBRD Bonds			-5.0 ^b	-5					1.2	1	1.2	1
TOTAL OFFICIAL CONTRIBUTIONS, GROSS^a	59.6	100%	99.9	100%	131.1	100%	136.0	100%	237.2	100%	231.1	100%
AMORTIZATION RECEIPTS	5.2	9	1.9	2	3.4	3	11.7	9	25.3	11	18.1	8

Source: External Aid Office (Any discrepancies in percentage addition due to rounding)

a Including transaction in bonds loans and participation on a net basis.

b Represents IBRD transactions in Canadian Government securities.

TABLE 10

OFFICIAL WEST GERMAN DISBURSEMENTS BY TYPE OF TRANSACTION, 1962 - 1967

Type of Transaction	1962		1963		1964		1965		1966		1967	
	Million US \$	% of Total	Million US \$	% of Total	Million US \$	% of Total	Million US \$	% of Total	Million US \$	% of Total	Million US \$	% of Total
BILATERAL GRANTS	127.2	24%	154.4	31%	155.6	29%	175.8	28%	112.7	19%	135.1	20%
Technical Assistance	51.0	10	76.5	15	85.7	16	93.6	15	105.7	18	126.1	19
Indemnification Payments to Israel	70.0	13	69.5	14	62.5	12	75.0	12				
Other Grants	5.2	1	8.4	2	7.4	1	7.2	1	7.0	1	9.1	1
BILATERAL LOANS, GROSS	289.8	56	316.4	64	362.1	69	421.4	66	445.8	75	476.8	70
Development Loans					287.3	54	271.4	42	283.4	48	323.4	47
KfW Export Credits					39.4	7	70.1	11	106.1	18	86.3	13
Consolidation Credits					0.3	1	42.4	7	4.3		0.7	
Refinancing Credits					35.1	7	37.5	6	52.0	9	66.4	10
MULTILATERAL CONTRIBUTIONS	102.4	20	25.3	5	9.7	2	39.4	6	36.3	6	66.4	10
IBRD	7.8	1	7.8	1					2.3		3.4	
IDA	10.2	2	10.1	2	10.2	2	24.2	4	24.1	4	24.2	4
EEC Development Fund	77.0	15							2.3		26.2	4
UN Agencies	10.4	2	12.4	3	14.5	3	13.7	2	14.2	2	15.2	22
Asian Development Bank									3.4	1	3.4	
IBRD Bonds	-3.0		-5.0	-1	-15.0	-3	1.5		-10.0	-1	-6.0	-1
TOTAL OFFICIAL CONTRIBUTIONS, GROSS	519.4	100	496.1	100	527.4	100	636.6	100	594.8	100	678.3	100
AMORTIZATION RECEIPTS	51.6	10	48.6	10	104.2	20	165.0	26	108.9	18	131.5	19

Source: Kreditanstalt für Wiederaufbau and External Aid Office (Statistical Discrepancy due to rounding)

bilateral grants, as depicted in Table 9, increased from \$26.7 million or 45 per cent of gross disbursements in 1962 to \$131.6 million in 1967 and 57 per cent of the total.

Technical assistance, the smallest part of the bilateral grant programme and primarily educational aid, rose from 7 per cent to 10 per cent of gross disbursements. Grants for capital projects, including largely educational equipment and pre-investment surveys, increased in volume but decreased slightly over the period from an initial 18 per cent to 15 per cent of gross disbursements in 1967. Programme assistance, the largest sector of the bilateral grant programme, increased notably both in volume and as a percentage of gross disbursements between 1962 and 1967.

A major part of this increase was due to the rapid growth in food aid. Non-food commodity aid, primarily industrial raw materials and fertilizers decreased over the same period. The rise in grants in 1966, largely the result of an increase in food aid was supplemented by \$9.3 million debt-forgiveness to India.

Gross disbursements under the Canadian loan programme more than doubled in volume but decreased as a per cent of total disbursements. Long-term export credits administered by the Export Credits Insurance Corporation were largely responsible for this trend in the loan programme. Amortization receipts have more than tripled and are now at substantial levels. The Canadian Development Loan Programme,

a relatively new feature, began in 1964. Loans made under this new soft-loan programme have significantly improved official financial terms in recent years.

Disbursements to multilateral agencies have risen in volume between 1962 and 1967 but have remained relatively stable as a percentage of gross disbursements. The largest contributions were made to UN Agencies; the second largest amount went to the International Development Association (IDA), the soft-loan agency of the World Bank. "Canada has been providing a little more than 5 per cent of the subscriptions to IDA by the industrialized nations."¹ There have also been some initial capital subscriptions made to the Asian Development Bank, a 31 member institution which became operational in 1966.

The West German official assistance programme is one of the four largest among DAC member countries.² Total bilateral grant disbursements, as shown in Table 10, increased in volume from \$127.2 million to \$135.1 million but decreased as a percentage of gross disbursements between 1962 and 1967. Bilateral grants during this period consisted mainly of technical assistance and indemnification payments. There has

1 Standing Committee on External Relations, p. 41.

2 See DAC, Review, 1968, p. 39 for a ranking of aid donors. The four largest contributors are the United States, France, Germany and the United Kingdom; together they accounted for 80 per cent of the DAC total assistance flows (both official and private).

been a strong upward trend in technical assistance expenditures but indemnification payments ceased in 1966.

Unlike Canada, West Germany prefers loans to grants, and these form the major part of bilateral assistance. In 1962, 56 per cent of total official contributions were loans and only 24 per cent were in the form of grants. By 1967, loans had grown to 70 per cent of gross disbursements. No breakdown was available for 1962 and 1963. Development loans increased in volume between 1964 and 1967 but decreased as a percentage of total disbursements. KfW export credits increased from 1964 to 1966 and decreased in 1967. Consolidation credits were somewhat erratic in performance and refinancing credits increased strongly.

The volume of multilateral contributions fluctuated between 1962 and 1967. The high initial figure was due to a \$77 million EEC capital subscription which was the last instalment on the First European Development Fund.³ Contributions to the IBRD in the form of capital subscriptions decreased and contributions to the IDA more than doubled over the period. The amounts contributed to the UN Technical Assistance and Relief agencies also increased.

³ Jack L. Knusel, West German Aid to Developing Nations (New York, 1968), p. 148.

Canada: Bilateral Assistance

a. Project and Non-Project Aid

Project aid refers to assistance for specific capital formation projects such as factories, transportation and power facilities, which increase the capital stock of the recipient country in a specific and clearly identifiable way."⁴ Non-project aid (also called programme assistance) "is either foreign exchange available for use at the discretion of the recipient, exchange provided to finance purchases from a specific list of goods or [it] may take the form of specific goods (e.g. foods, fertilizer) not supplied in connection with any particular capital project."⁵

Canadian development assistance has been chiefly given in the form of capital project financing.⁶ Within this project component the main emphasis has been on economic infrastructure. Among capital projects, expenditures for the development of energy resources, transport and communications have grown particularly rapidly. Recently, "Canada has also broadened its transportation and communications aid from railway locomotives and parts to such fields as airport

4 Friedman, Kalmanoff, and Meagher, op. cit., p. 404.

5 DAC, Review, 1968, p. 57. See also The Flow of Financial Resources to Less-Developed Countries, 1961-1965, pp. 176-178.

6 Standing Committee on External Relations, p. 37.

studies and construction, supply of aircraft, road studies."⁷

All projects should possess the following general criteria:

- a) they should be directly related to economic, educational or social development;
- b) they should be given high priority by the recipient government in the country's overall development programme;
- c) they should contain elements of self-help;
- d) the identity of the Canadian contribution should be maintained;
- e) the equipment, materials and services required should have a Canadian content of 80 per cent or higher.

In practice, there appears to be a high degree of adherence to these criteria.

Increasingly, Canadian aid efforts have stressed integrated projects, which involve "a range of technical and financial aid designed to meet specific priority objectives over a period of time."⁸ For example, as a result of the Commonwealth Caribbean-Canada Conference held in June 1966, Canada began a five-year \$5 million programme at the University of the West Indies (UWI). A programme "to design

⁷ Ibid., p. 37.

⁸ Loc. cit.

and construct buildings at three campuses, provide scholarships and fellowships for training in Canada and at the university; and Canadian lecturers to supplement UWI's staff. Some of these scholarships ... enable students from the smaller islands in the Caribbean to do graduate work at UWI campuses."⁹

A unique feature of Canadian project assistance has been the financing of pre-investment and feasibility studies both through grants and development loans.¹⁰ Their aim is largely to ensure a more effective use of aid funds by determining the feasibility, priority, and financing requirements for particular projects. Thereafter, a recipient country is expected to be in a position to obtain financing for these projects from a variety of sources.

Non-project assistance which in recent years has been chiefly in the form of food aid has been growing steadily; in comparison, general commodity assistance has declined. In the past, commodity aid has consisted almost entirely of grants of such Canadian produced commodities as: copper, aluminum, nickel, zinc, asbestos, wheat, woodpulp, fertilizers and pesticides. Paper for the production of textbooks

⁹ Standing Committee on External Relations, p. 37.

¹⁰ The most typical Canadian undertaking in this area and one in which Canada has a special competence is the aerial survey. Two recent examples of this kind are: a natural resources survey in Malaysia, which was followed up by a detailed study of land use; and a mapping survey of Guyana's forested interior. Feasibility studies have been made in transportation and livestock production in Cameroun and of

has also been sent to Cameroun, Guinea, the Congo and Malagasy. Now, commodities are provided on a soft loan, rather than a grant basis.

The provision of food supplies or food aid by Canada consists largely of wheat and to a much smaller extent flour. In 1966, the exceptionally large increase in food aid was in response to emergency requests from India. It is argued that:

food aid is, ... a response to a situation arising from crop failures or shortages. But food aid also contributes to development by releasing for development purposes foreign exchange that would otherwise have to be used to buy foodstuffs. We require that the recipient country set up in its own accounts an amount in local currency - a counter-part fund - which is equivalent to the amount of foreign exchange they have saved by our gift of food. We have no direct access to this fund. But Canada requires that the recipient apply it to agreed long-term development projects.^{11,12}

Canada views food aid as a necessary interim measure until LDC's are able to meet their food requirement from their own resources. It places, however, increasing emphasis on identifying ways in which LDC's could be assisted in increasing their agricultural productivity. Towards this end, for example, two teams of agricultural experts were sent to India in the Fall of 1967. The purpose of one was to

airport location in Nevis and Dominica.

11 Standing Committee on External Relations, p. 38.

12 For a perceptive analysis of the use of counterpart funds see Keith Spicer, A Samaritan State? (Toronto, 1966) pp. 187-193.

TABLE 11

GEOGRAPHIC DISTRIBUTION OF CANADIAN FOOD AID
(Million US Dollars)

	1965		1967	
	Disbur- sements	Commit- ments	Disbur- sements	Commit- ments
I. <u>BILATERAL, TOTAL</u>	<u>19.839</u>	<u>22.145</u>	<u>74.077</u>	<u>61.868</u>
<u>AFRICA</u>				
Algeria			0.927	0.927
Morocco			1.387	1.387
Tunisia				0.925
Ghana			1.881	1.850
Senegal			0.456	0.462
<u>ASIA</u>				
Burma	0.324	0.324		0.001
Ceylon		1.957	3.427	1.850
India	15.725	15.725	56.427	46.267
Pakistan	3.376	3.713	9.250	7.896
Indonesia			0.322	0.303
Vietnam (South)	0.139	0.139		
<u>AMERICA</u>				
Dominican Republic	0.275	0.287		
II. <u>MULTILATERAL, TOTAL</u>	<u>1.08</u>		<u>12.321</u>	<u>8.232</u>
Contribution to the World Food Programme	1.08		10.324	7.307
Contribution to UNWRA			1.997	0.925

Source: External Aid Office

investigate the manner in which Canada could best stimulate Indian agricultural production and the other group was to develop methods of improving the system of project administration and implementation.

b. Export Credits and Development Loans

Long-term export credits, administered by the Export Credits Insurance Corporation (ECIC), declined in volume between 1964 and 1967 after having increased rapidly in the first few years of operation. Export credits are extended at commercial rates; at 6 per cent interest, maturities of 5 to 20 years and grace periods range up to 5 years.¹³ In 1967 their average terms were 14 years, the average grace period 3 years, and all interest rates were at 6 per cent.¹⁴ The Canadian authorities readily acknowledge that they are designed primarily to assist the Canadian exporter, mainly

¹³ A detailed list of financing agreements under Section 21A of the Export Credits Insurance Act is given in the Annual Report and Financial Statements: 1967, ECIC (Ottawa, 1968), pp. 22-27. Among the criteria which determine the eligibility of transactions and which reflect their commercial purpose, are the following:

- a) the terms requested must be more than five years and clearly necessary and justifiable;
- b) the buyer must have a satisfactory credit rating in a creditworthy country, and the project must be economically sound;
- c) the Canadian content must be not less than 80%;
- d) the sale should show promise of significant industrial benefits in Canada as well as prospect of continuing export trade. (ECIC, Annual Report, 1967,

p.9)

¹⁴ Grant L. Reuber, "Canada's Economic Policies toward the Less Developed Countries," Canadian Journal of Economics, I (November, 1968), p. 675.

in the financing of capital equipment.¹⁵

Export credits are included in a country's total assistance because they represent a part of the internationally accepted measure of the flow of financial resources to LDC's. They also "qualify as development assistance because their terms are softer than those which could be extended directly by Canadian exporters."¹⁶ However, not all LDC's, are eligible under the export credit programme, since the economic strength and the debt servicing capacity of the recipient have to be taken into account. The terms of export credits must be governed by the capacity of the LDC to support the repayments burden involved.

At one time export credits represented almost one-third of the entire programme, but now account for only one-fifth, and the proportion is expected to decrease in future years.¹⁷ Assistance in this form has been used mainly for project financing with a heavy emphasis on economic infrastructure. In the first few years of operation, nearly all export credits were extended to Latin American countries; in 1964

¹⁵ See the statement submitted by Maurice F. Strong, Director General, External Aid Office to the Standing Committee on External Relations, p. 38.

¹⁶ "Canada's Contribution to Economic Development in the Less Developed Countries," a lecture given at Columbia University by Paul Martin, Secretary of State for External Affairs, April 28, 1967, mimeo., p. 12.

¹⁷ Standing Committee on External Relations, p. 38.

and 1965 credits to India, Pakistan and Ceylon grew rapidly. None, however, were extended to African countries other than the United Arab Republic. In June 1965 the ECIC signed an agreement with the Inter-American Development Bank (IDB) under which \$13.9 million were made available for export credits for projects in Latin America to be recommended by the IDB.

The ECIC operates within an overall ceiling of \$463 million on export transactions outstanding at any one time and the yearly quota on ECIC loans is subject only to the restraint of this overall ceiling limit. At December 31, 1967, after seven years of operation, 45 financing agreements in 16 countries have been signed with a total value of \$358 million.

The Special Development Loan Programme which began in 1964 offers terms similar to those of the World Bank's soft-loan agency - the International Development Association (IDA); that is, no interest, ten years grace, and a fifty year maturity. For countries with a relatively higher debt servicing capacity semi-soft loans carrying interest at three per cent, with a seven year grace period and a thirty year maturity were introduced in 1966.

"Development loans have been employed in the main for those projects which bring a specific economic return to the country and should be self-liquidating over the long term."¹⁸

18. Ibid., p. 38.

These development loans are extended to countries which can employ such funds for large capital projects or require sizeable quantities of industrial raw materials. India and Pakistan are eligible for these soft-loans and some will be extended to the Caribbean and Latin American countries. Ghana, Algeria, Thailand and South Korea will become eligible for development loan assistance if there are suitable projects available.¹⁹

An interesting feature of the Special Development Loan Programme is the arrangement with the IDB as administrator for Canadian development loans to its Latin American member countries. An agreement was signed on December 4, 1964 between the Canadian government and the IDB, by which an initial amount of \$9.25 million was provided for loans to finance economic, technical, and education projects in Latin America. The IDB selects, administers, reviews projects and recommends terms, subject to final approval of loan contracts by the Canadian government.²⁰ Similar arrangements have also been made with another regional development bank. In 1966, Canada pledged an initial capital contribution of \$23.1 million and additional funds for technical assistance to the Asian Development Bank.

A special type of coordinated bilateral aid in which

¹⁹ Ibid., p. 45.

²⁰ Spicer, op. cit., pp. 74-75.

Canada participates in the formation of aid consortia. Canada is a member of the OECD Consortia for Greece and Turkey; the IBRD Consortia for India and Pakistan; IBRD consultative groups on Malaysia, Thailand, Korea, Nigeria, Morocco, Peru and Columbia; and the IDB consultive group on Ecuador.

Canada: Multilateral Assistance

Canada provides development loans through multilateral as well as bilateral channels. Multilateral loans are extended through the three lending institutions known as the World Bank Group. The Group's two most important members are the International Bank for Reconstruction and Development (IBRD), which obtains a part of its funds from government subscriptions; and IDA, an IBRD affiliate established in 1960 which provides development loans on very easy terms. Canada initially paid a subscription of \$37.8 million or 5.6 per cent of the total subscription to IDA by industrialized nations. A supplementary contribution of \$41.7 million was agreed to for the three-year period 1965-1967.^{21,22}

²¹ Ibid., p. 206.

²² Canada's pledge to IDA is for a fixed period of time, part of which is made available to IDA annually in the form of non-interest bearing demand notes. These notes constitute the Canadian commitment to IDA for that year. When IDA requires Canadian funds to meet disbursements under projects which it has agreed to finance, it draws down a portion of these notes in each calendar year. (S.K. Westall, Director of Information, EAO, in a letter to the author, March 7, 1968).

Canada has also consistently contributed to the United Nations Development Program; an agency which provides pre-investment and technical assistance. Other grants of a multilateral nature are made to the Indus Basin Development Fund,²³ the UN Relief and Works Agency for Palestine Refugees (UNRWA) the UN Children's Fund (UNICEF), and the UN High Commissioner for Refugees.²⁴

Geographic Distribution of Aid

"Canadian aid is being increasingly concentrated in countries and areas where Canada has important interests and where Canadian aid can make the most effective contribution to development."²⁵ This policy of geographic concentration will ensure that the major part of Canadian assistance is directed to some 16 LDC's currently designated as areas of concentration (where concentration relates

23 Under the supervision of the IBRD, the United States, United Kingdom, West Germany, Australia, Canada, New Zealand, Pakistan and India formed a consortium in 1960 to finance the Indus Basin Development project. The purpose of the project is to divert Indus waters used by Pakistan, and to apportion power and irrigation benefits of the Indus river system between India and Pakistan. (Jack L. Knusel, op. cit., p. 69.)

24 In 1967, food contributions to the World Food Programme and UNRWA which have previously been counted in the bilateral food aid programme, were included under multilateral grants. This accounts in part for the changes between 1966 and 1967 in the figures for bilateral food aid and multilateral grants.

25 Standing Committee on External Relations, p. 39.

TABLE 12

CANADA: GEOGRAPHIC DISTRIBUTION OF OFFICIAL BILATERAL DISBURSEMENTS, 1967
(Million US Dollars)

Recipient Areas	BILATERAL FLOWS			of which:	
	Grants, net	Loans and Other Long-Term Capital Amount extended ^a	Amount Received ^b	Total	TECHNICAL ASSISTANCE Grants, net
<u>EUROPE</u>	<u>0.05</u>	<u>0.05</u>		<u>0.1</u>	<u>0.05</u>
<u>AFRICA</u>					
North of the Sahara	19.7	1.9	0.1	21.5	11.9
South of the Sahara	3.7	0.2		3.9	1.3
	16.0	1.7	0.1	17.6	10.6
<u>AMERICA</u>					
Central America	5.0	13.2	14.8	3.4	3.2
South America	3.8	10.9	9.2	5.5	2.8
	1.2	2.3	5.6	-2.1	0.4
<u>ASIA</u>					
Middle East	105.0	38.2	3.3	139.9	6.0
Southern Asia	99.0	36.3	.2	-0.2	2.0
Far East	6.0	1.9	1.2	133.4	4.0
<u>OCEANIA</u>	<u>0.03</u>			<u>0.03</u>	<u>0.03</u>
<u>OTHER, Unspecified</u>	<u>1.7</u>			<u>1.7</u>	<u>1.5</u>
<u>TOTAL</u>	<u>131.5</u>	<u>53.4</u>	<u>18.2</u>	<u>166.6</u>	<u>22.7</u>

Source: External Aid Office (Statistical discrepancy due to rounding).

a Bilateral loans, gross

b Amortization receipts

primarily to the volume of aid).

Of these, the chief areas of concentration at present are India, Pakistan, Malaysia and Ceylon in South and South-East Asia; Tunisia, Cameroun, Rwanda and Senegal in Franco-phone Africa; Nigeria and Ghana in Commonwealth Africa; Jamaica, Trinidad, Guyana, the Little Eight and British Honduras, and the University of the West Indies in the Commonwealth Caribbean, and Latin America as a region through the Inter-American Development Bank. Canada has allocated almost 80 per cent of bilateral funds to these areas of concentration. It is expected that concentration will permit a sustained and concerted effort in these areas and thereby promote economic development very rapidly.

Development assistance to other countries is to be channelled through regional development banks and multi-lateral agencies.

Recent Policy Innovations

The Canadian method of establishing counterpart funds through the sale by recipient countries of commodities supplied by Canada does not always provide a sufficient supply of funds to meet local costs. Accordingly, the Canadian government has introduced a new policy in 1966, which authorizes the EAO to provide up to 25 per cent of the Canadian contribution to a project in the form of local cost financing in appropriate cases. Such cases are projects of

of high priority where the recipient country has adopted self-help measures but has encountered difficulties in raising the necessary local funds. A further measure of flexibility was introduced when the Canadian government authorized a new policy that, subject to the 25 per cent limit, extends the financing of local costs to the financing of imports from other LDC's.

In 1965, the Canadian government placed all bilateral aid appropriations on a non-lapsing basis and they are maintained in a non-lapsing account until disbursed. This measure results in the independence of disbursements and commitments of any particular fiscal period and they are available even if they have not been disbursed in the fiscal period in which they were first appropriated. Multilateral contributions, however, are appropriated individually and on a lapsing basis.

A new five-year forward planning and commitment authority has also been introduced in 1966, which permits the EAO to undertake advance planning of programs with individual recipient countries for each of the four years beyond the current year up to the level of aid funds provided to each country in the current year. Firm commitments may be made to the extent that commitments in any future year do not exceed 75 per cent of the current year's appropriations. If a country's allocation is increased, the planning and commitment ceilings subsequently increase. These factors

introduce a degree of flexibility and give a certain assurance of minimum levels of Canadian aid to LDC's. The forward commitment authority also speeds up the flow of programme aid by facilitating long-term arrangements in Canada, for the supply of base metals and other commodities.²⁶

Plans have also been put into effect along the lines of improved field administration by using more special purpose task forces such as the ones sent to South Vietnam and India. EAO officers will be sent abroad as administrators of technical assistance programmes and annual on-the-spot reviews are planned for countries where Canadian aid is concentrated.

The Tying of Canadian Aid

Almost all bilateral assistance is tied to procurement in Canada. It is Canadian policy to ensure that the major part of bilateral aid is given in the form of Canadian goods and services.²⁷ In the period 1965-1967, approximately 80 per cent of bilateral assistance expenditures were tied.²⁸

There exist several reasons why Canada considers it necessary to tie most of her aid. The most important reason appears to be a desire to give aid in the form of identifiable

26 Standing Committee on External Relations, p. 43.

27 Ibid., p. 39.

28 See Table 13; this percentage includes technical assistance.

TABLE 13

CANADIAN OFFICIAL ASSISTANCE BY CATEGORIES, 1965-1967
(Gross Disbursements)

CATEGORY	1965			1966			1967		
	Million	Per	Million	Per	Million	Per			
	US \$	Cent	US \$	Cent	US \$	Cent			
I. <u>GRANTS^a</u>	54.7	40%	135.4	57%	108.9	47%			
1. Food Aid (tied)	19.8	14	88.3	37	74.1	32			
2. Other Commodities (tied)	14.5	11	16.2	7	0.2				
3. Capital Aid (tied)	20.4	15	21.6	9	34.6	15			
4. Debt forgiveness			9.3	4					
II. <u>BILATERAL LOANS (tied)</u>	40.2	30	51.4	22	53.4	23			
1. Export Credits	39.1	29	41.2	18	33.2	14			
2. Development Loans	1.1	1	10.2	4	20.2	9			
III. <u>TECHNICAL ASSISTANCE (tied)</u>	12.7	9	19.2	8	22.7	10			
IV. <u>MULTILATERAL CONTRIBUTIONS</u>	28.4	21	31.2	13	46.1	20			
TOTAL	136.0	100%	237.2	100%	231.1	100%			
Tied Contributions	107.6	79%	196.7	83%	185.0	80%			

Source: Table 9

^a Excluding technical assistance grants and grants to multilateral agencies.

Canadian contributions and thereby to obtain public support for a rapidly expanding aid programme. Next, Canadian authorities express

concern about the effect that untied aid would have on the balance of payments, particularly for a capital importing country such as Canada. Another reason is the desire to facilitate Canadian exports. Provision of Canadian products and services can lead to an increased familiarity with them on the part of developing countries - and hence to expansion of trade opportunities.²⁹

The EAO has recently implemented certain measures to ensure competitive bidding by Canadian exporters and to provide primarily those commodities for which Canada is particularly competitive in order to reduce the adverse effects of tying aid. In the past, the government's central purchasing department was responsible for the procurement of aid financed goods. This process was time-consuming and a new procurement policy was introduced in 1966 which permits recipient countries to make direct purchases from Canadian suppliers.³⁰

Direct procurement may be authorized in four instances. First, in the case where under international tender calls a Canadian bidder has been successful in obtaining the contract. Second, in a case where Canadian supplies are purchased under an agency or trust agreement with an international organization. Third, where supplies are purchased through

29 Standing Committee on External Relations, p. 39.

30 Loc. cit.

a national development bank under a loan agreement with an eligible recipient country. Fourth, when commodities are purchased from Canadian producers which are selling at established international prices.

Although a significant share of Canadian aid is channelled through multilateral agencies and is therefore untied, almost all bilateral aid is tied. For example, commodity aid which includes food and base metals, is wholly tied to procurement in Canada. Capital aid and development loans are for the most part contractually tied with the contracts specifying the procurement of goods and services in Canada; and even the development loan funds administered by the IDB are tied to Canadian goods and services. In the case of export credits the Canadian content must be not less than 80 per cent. A large part of Canadian aid is supplied in the form of such services as pre-investment, feasibility studies and aerial surveys. These are in turn tied to the employment of Canadian professional personnel.

Exceptions to the policy of tied purchases are permitted when essential equipment is unavailable in Canada and the project as a whole is one that Canada wants to support. In addition, a new policy has been introduced which permits, subject to the 25 per cent maximum limit on local cost financing, procurement from other LDC's.

In many instances the tying of aid is not a difficulty since the required imports can be obtained most economically

from Canada. Such items as railway and power generation equipment and transport aircraft are highly competitive internationally and certain industrial commodities determine world prices. Other Canadian goods with a relative price disadvantage are purchased on tender but in general Canada is reluctant to supply goods in which she is uncompetitive.

West Germany: Bilateral Assistance

a. Project and Non-Project Aid

West Germany channels its development assistance to LDC's primarily on a bilateral basis. Under this approach, development assistance is extended "only after the conclusion of an overall aid agreement between Germany and the recipient country and after direct negotiation and mutual agreement on each project between Germany and the recipient country."³¹ In the case of non-project aid, the commodities eligible for financing are decided jointly by the recipient country and the West German authorities.

Project assistance has been the principal form in which aid was extended to LDC's. General programme assistance, that is financial support for a development programme rather than for specific projects, is rare.

Programme assistance was in principle to be extended only in cases of internationally co-ordinated actions and where careful controls

31 Krusel, op. cit., p. 110.

were possible. Budgetary assistance was strictly excluded.³²

West Germany has in the past been reluctant to assist recipient countries with project preparation and aid was given only in response to requests. In principle, they were required to submit requests, on their own initiative, to West German embassies for preliminary examination. This system proved to be ineffective and in several instances West German industrial firms have assisted in project pre-selection. Now, however, assistance is available for project preparation prior to the signing of capital assistance contracts. Also capital aid credits for the purchase of industrial raw materials and spare parts are to be extended to countries which possess already a relatively advanced industrial base.

There has also been a tendency in recent years towards larger projects, particularly in the agricultural sector, under which both capital aid and technical assistance are provided. Preference is being given by West German authorities to those projects which contribute towards raising export capacities within a short period of time.

It has been government policy to concentrate official assistance on infrastructure projects and to leave economically profitable projects mainly to private investors. Within the project component, the emphasis has been on projects in

³² Goran Ohlin, Foreign Aid Policies Reconsidered (Paris, 1966), p. 39.

the industry and transport sector. The number of projects financed in agriculture has decreased somewhat and technical assistance contributions have increased in this sector.

Apart from indemnification payments, Indus Basin Fund contributions and small expenditures in kind, grants are given primarily in the form of technical assistance and multilateral contributions. The major portion of West German contracts for projects are of a bilateral nature - chiefly in the form of direct government loans. Loans, as depicted in Table 10, constitute the largest share of development assistance: 70 per cent in 1967.

The principal agency for West German bilateral capital assistance is the Reconstruction Loan Corporation (Kreditanstalt fuer Wiederaufbau-KfW). It concludes loan agreements with recipient countries and acts as the executive organ for all capital aid projects. The KfW is responsible for pre-investment and feasibility studies of projects under consideration as well as project implementation, the provision of funds and the establishment of a repayment schedule.³³

West German agricultural assistance efforts are aimed at increasing food production in the LDC's; the shipment of food is restricted to relief measures. Capital aid projects in the agricultural field have been chiefly concentrated on irrigation, agricultural processing, and the financing of

33. Jan Schmitz, ed. Entwicklungshilfe, (Development Assistance), (Bonn, 1965), p. 44.

agricultural credit institutions. Past experience has shown that projects in agriculture must be accompanied by a simultaneous development of marketing facilities and a complementary network of other physical facilities and services. In addition, it has been found necessary to supply such production requisites as seeds, pesticides, fertilizers, tools and breeding cattle to the agricultural projects in LDC's. These items are supplied either as grants or sales for local currency.

The existence of capital and personnel limitations on both sides usually prevents implementation of projects on a nationwide scale; concentration on projects which are limited to one or several areas within the recipient country has therefore been considered a necessity. This "limited area approach" has proven its usefulness in several instances, particularly in the Mandi district of India. However, services such as research and training facilities, are provided on a much wider geographic basis.

Most technical assistance projects under the agricultural aid programme contain elements of research. Assistance is being given to experimental and training stations in African and Asian countries in the form of services of German experts and equipment. As a result of the emphasis on a rapid increase in agricultural productivity, priority has been given to research on plant and animal diseases as against more long range basic research activities.

West German grants to LDC's include reparations to Israel, which do not occur in the case of other aid-giving countries. Reparation or indemnification payments are included under the category of grants since they do not involve an obligation regarding repayment of the resources transferred. Table 10 indicates a relative constancy of reparations payments from 1962 to 1965. "This is in part due to the fact that since September 10, 1952 (Luxembourg Agreement) the Federal Republic of Germany has been obligated to pay Israel \$863 million dollars in reparations payments."³⁴

b. Export Credits and Development Loans

The West German bilateral loan programme consists of:

- 1) Development loans financed out of budgetary resources;
- and 2) "Own-account" credits of the KfW in the form of suppliers and buyers financial credits.^{35,36} KfW "own-account" credits are relatively hard and they were extended, on the average, at an interest rate of 6.3 per cent, a maturity period of 11 years and a grace period of 3 years in 1967. Development loans, on the other hand, had an interest

³⁴ Knusel, op. cit., p. 114.

³⁵ "The KfW's funds are derived from the issue of bearer bonds, and from loans granted by the Federal Government, Federal special funds, the Federal Bank and other sources." (John White, German Aid, (London, 1965), p. 42.

³⁶ "Buyers' credits ... replace the more normal suppliers' credits if there are several German suppliers acting in a consortium, making it possible for the importing country's debts to be consolidated." (White, op. cit., p. 151).

rate of 3 per cent, a maturity period of 10 to 30 years and a grace period which was frequently over five years.

Consolidation credits include all credit extensions arranged under official auspices whether or not the credits were originally extended from public or private sources.³⁷ In 1965, consolidation credits were at the exceptionally high level of \$42.4 million. This was primarily the result of a consolidation of commercial debits, particularly with India. Besides consolidation credits, refinancing loans constitute an important component of bilateral disbursements, and have risen to 10 per cent of the total aid programme in 1967.³⁸

The KfW also makes loans to development banks which in turn relend these funds to a great number of small and medium-sized industrial enterprises. The development banks are familiar with the local economy and they can best ensure that the numerous individual projects are carefully selected. The banks financed mainly industrial enterprises. Consumer goods industries received about half of the loans, capital goods industries were next in importance, and the remainder went to food and beverage industries and basic material industries. The major part of the loans serves to finance the modernization and expansion of existing enterprises. Although the loans to development banks are

37 A consolidation credit is defined as an extension of the original maturities of loans.

38 A refinancing credit is defined as refinancing by the government of loans originally extended by private creditors, usually guaranteed export credits.

granted without any ties to deliveries, more than 85 per cent of the loan funds were applied to deliveries by German firms.

West Germany: Multilateral Assistance

Credits in the form of debenture bonds as well as capital shares are provided to the IBRD and the IDA. Contributions are also made to the European Economic Community (EEC) Development Fund. The final payment on the First European Development Fund in the amount of \$77 million was made in 1962, and thereby terminating the First Fund which has in general made grants of a social or economic nature. West Germany has agreed to pay \$246 million into the Second European Development Fund and the first instalment was paid in 1966.

Although not a member of the United Nations, West Germany has contributed to various technical assistance programmes of the United Nations and its specialized agencies.³⁹ It has made regular contributions for example, to the UN Expanded Technical Assistance Program and the UN Special Fund, to UNICEF, UNRWA and the UN High Commissioner for Refugees.

³⁹ West Germany is not a member of the UN parent organization, but has an observer role, and serves on various committees of the UN.

Geographic Distribution of Aid

The geographic distribution of West German development aid is the result of a rapid expansion of their aid programme.

At first, the lack of historical ties had been conceived as a freedom to pursue a pragmatic policy, but a general dispersion of aid was found unsuitable, and in 1962 ... a policy of "moving foci of concentration" (Wandernde Schwerpunkte) [was announced], "roughly along the lines: yesterday the Middle East, today Africa, today and tomorrow Latin America." Although technical assistance is widely dispersed, financial assistance is concentrated as far as possible.⁴⁰

The countries on which financial assistance is concentrated are Spain and Turkey in Europe; Morocco, the U.A.R., Ghana and Guinea in Africa; Argentina, Chile, Peru and Brazil in South America; and Israel, Iran, Afghanistan, India, Pakistan, Indonesia and Thailand in Asia. In 1967, the traditional emphasis on Asia was maintained and it received as much as the other areas combined. The emphasis on aid to Asia is largely the result of the participation in the Consortia for India and Pakistan. Aid to Africa, as indicated in Table 14, is extended largely on the technical assistance level. It is expected that major recipients of West German aid will continue to receive special priority in the future; these include India, Pakistan, Israel, Indonesia and Ceylon.

40 Ohlin, op. cit., p. 40.

TABLE 14

WEST GERMANY: GEOGRAPHIC DISTRIBUTION OF OFFICIAL BILATERAL DISBURSEMENTS, 1967

(Million US Dollars)

RECIPIENT AREAS	BILATERAL FLOWS			Of which: Technical Asst.
	Grants, net	Loans and Other Long-term Capital Amount extended ^a	Capital Amount received ^b	Grants, net
<u>EUROPE</u>	7	51	16	42
<u>AFRICA</u>	35	82	11	106
North of the Sahara	9	24	2	31
South of the Sahara	26	58	9	75
<u>AMERICA</u>	25	69	37	57
Central America	3	1	2	4
South America	22	68	35	21
<u>ASIA</u>	31	250	39	242
Middle East	6	52	4	54
Southern Asia	17	121	30	108
Far East	8	77	5	80
<u>OCEANIA</u>				
<u>OTHER, Unspecified</u>	36	25	28	33
<u>TOTAL</u>	135	477	131	480
				126

Source: External Aid Office (Statistical discrepancy due to rounding).

a. Bilateral loans, gross

b. Amortization receipts

In principle, West Germany intends to concentrate its aid on certain countries and areas but it has found it difficult to disentangle itself from existing arrangements with recipient countries. In general, however, there are no fixed geographical patterns of aid and this is largely the result of the lack of traditional colonial ties.

The Tying of West German Aid

There has been a tendency in the period from 1962 to 1967 for the percentage of tied aid to increase. In 1962 the tied portion of German aid was about 22 per cent of the total aid and by 1966 it had risen to 38 per cent. Nevertheless, West Germany extends a large amount of aid which is directly linked to imports but not contractually tied. Most of the untied aid is in the form of project assistance and a large proportion is used by recipient countries for purchases from West German firms.

Two of the chief reasons for procurement restrictions are the need for public support for the aid programme and the desire to be identified with the assisted project. One of the strongest arguments for tying aid is made on the basis of balance of payments difficulties. This, however, is not the case since West Germany has a considerable surplus and it appears that the tying of aid is unwarranted on the basis of this situation. It would appear that West Germany ties its aid largely as a countermeasure to the procurement

TABLE 15

OFFICIAL WEST GERMAN ASSISTANCE BY CATEGORIES
(Gross Disbursements)

Category	1965		1966		1967	
	Million US \$	Per Cent	Million US \$	Per Cent	Million US \$	Per Cent
I. <u>Grants^a</u>	82.2	13%	7.0	1%	9.1	1%
1. Indus Basin	4.5	1	3.9		3.8	
2. Supplies of Food and Agricultural Commodities	2.4		2.7		4.0	
3. Cash Contributions	0.3		0.4		1.3	
4. Reparation payments	75.0	12				
II. <u>Bilateral Loans</u>	421.4	66	445.8	75	476.8	70
1. Development Loans (tied)	97.6	15	120.5	20	(323.4)	47
2. Development Loans (untied)	141.3	22	162.9	27		
3. KfW Export Credits (tied)	70.1	11	106.1	18	86.3	13
4. Consolidation Credits	42.4	7	3.9	1	0.7	1
5. Refinancing Credits	37.5	6	52.0	9	66.4	10
6. Cash Contributions	32.5	5	0.4			
III. <u>Technical Assistance</u>	93.6	15	105.7	18	126.1	19
IV. <u>Multilateral Contributions</u>	39.4	6	36.3	6	66.4	10
TOTAL	636.6	100%	594.8	100%	678.3	100%
Tied Contributions	167.7	36%	226.6	38%		

Source: Table 10 and EAO

a Excluding technical assistance grants and grants to multilateral agencies.

restrictions of other donors. The West German government appears willing to take part in a multilateral action to reduce the scope of aid tying.

The major part of German bilateral development assistance is formed by direct government loans and less than half of these were contractually tied in 1965 and 1966. The remainder was not subject to formal procurement restrictions. The export credits extended by the KfW out of its own resources are tied to West German supplies and the financing for services is restricted to West German professionals.

The choice of the supplier has usually been the result of competitive bidding. The recipient is encouraged to use this procedure and tenders are open to national suppliers when the assistance is tied. In all cases where aid is untied, West German authorities require in principle that procurement take place on an international basis. Occasionally international bidding is permitted where initial applications from German suppliers were unsatisfactory because of the small number of bids or high prices.

Summary

The previous discussion of the two aid programmes clearly reveals the preference of both donors for bilateral rather than multilateral aid. Grants form the larger part of Canadian development assistance. Bilateral loans, mainly export credits have decreased in magnitude; development loans, which are extended on softer terms have slowly increased. West German aid is extended primarily in the form of government-financed loans for projects. While grants have been increasing in the last two years, loans still constitute the largest share.

Both donors have increasingly stressed integrated projects which incorporate both capital aid and technical assistance as a way of reducing administrative overhead. Where once aid was given only in response to requests, West Germany now assists recipient countries with project preparation. Canada particularly favours pre-investment and feasibility studies as an efficient aid measure.

Agricultural assistance is of growing importance in the two aid programmes. West Germany has gone through an extensive period of experimentation trying to find methods which yield optimum results in an effort to assist recipient countries towards self-sufficiency in food production. The experience gained so far from the implementation of agricultural development projects has led to the conclusion that

such isolated measures as demonstration projects are insufficient for successful agricultural development. Instead a combination of capital and technical assistance as well as complementary physical facilities, infrastructure and services are required in proper proportion and they must form an integrated whole. Whereas, direct emphasis in the West German agricultural aid programme is on technical assistance, the supply of production requisites, research on plant and animal diseases and the financing of agricultural credit institutions in order to give an immediate stimulus to agricultural productivity; increasingly infrastructure projects in the fields of electrification and transportation are being justified because they benefit the agricultural sector. Also the majority of funds contributed to national development banks are intended for relending to small and medium scale enterprises, preferably those benefitting rural development. The "limited area approach" in agricultural development is especially useful since it permits the concentration of scarce resources on high priority areas within the recipient country.

On the other hand, Canada's agricultural aid programme has been quite limited in the past due to the fact that it was primarily responsive in nature. This has restricted the main forms of Canadian agricultural aid to such short-term assistance as: food aid, capital project aid and the supply of production requisites for agricultural purposes. Canada,

unlike West Germany, does not aid research institutions in tropical agriculture within LDC's on any significant scale. Furthermore, there exists some controversy as to whether food aid is truly development assistance and not simply a way of disposing of unwanted agricultural surpluses. It can even be argued that food aid should be extended only on an emergency relief basis; thereby circumventing the inefficient and oftentimes unworkable device of counterpart funds.

Special arrangements exist with respect to national and regional development banks. Their procedure is essentially one of relending long-term aid funds at shorter terms to medium and small scale commercial enterprises. This two-step lending procedure offers the donors considerable advantages since they are able to draw on the expertise of the bank and its familiarity with local needs to efficiently allocate their funds among the numerous individual projects. There exists a difference in approach to this type of lending between the two donors. Whereas, Canada only contributes funds to regional development banks and ties her aid; West Germany contributes untied funds to both national and regional development banks.

A tendency exists on the part of both countries to concentrate their aid efforts on a limited number of LDC's. The present pattern of geographic distribution of assistance is the result of a complex of political and economic reasons and it is inevitable that historical, political, and

commercial factors will continue to influence the distribution of each donor's assistance. Canada has selected specific areas of concentration and proposes to channel foreign aid outside of these areas of concentration, primarily through regional development banks and multilateral agencies. There is no clear geographical distribution of West German aid, although, assistance has been extended to a great number of countries. The wide dispersion of aid appears to have been primarily due to the rapid expansion of the aid programme. Recently, however, measures have been taken to concentrate aid funds on a smaller number of recipients. It may be noted that technical assistance has a wider dispersion than capital flows and assistance provided through the multilateral agencies has a very wide geographic distribution. The country consortia and consultative groups of which both are members, provide a means of linking bilateral with multilateral financial assistance; these groups are, however, only concerned to a very limited extent with technical assistance.

Aid tying restricts purchases with aid funds to suppliers of the donor country. Such procurement restrictions prevent the recipient from choosing the most economic source of supply, thus they obtain less for the aid given. Aid tying may result in higher procurement costs to the recipient because of higher production costs in the donor country, or because of higher prices which may arise from a situation of restricted competition irrespective of comparative production

costs.

Few donor countries provide import financing on an untied basis. West Germany, however, makes funds available in the form of cash contributions and Canada provides for a limited amount of local cost financing and the financing of imports from other LDC's. As these are not directly linked to imports, they are therefore untied. Moreover, aid disbursements by multilateral agencies are available to recipients on an untied basis.⁴¹ Nevertheless, it must be noted that untied aid is a small portion of the total assistance effort and that it tends to be concentrated on a relatively small number of recipient countries.

The two basic reasons for tying aid are first, the concern of donors to minimize the balance-of-payments impact of foreign aid and second, an attempt to gain domestic public support for the aid programme. Approximately eighty per cent of Canadian aid is tied largely for balance-of-payments reasons and to ensure continued public support for development assistance. West Germany offers similar though less convincing arguments, but it ties only about half of its foreign aid. The favourable balance of payments of recent years would

41 "All aid made available by the World Bank and its affiliates, IDA and IFC (International Finance Corporation), is untied, as are also loans made with dollars by the IDB out of its Ordinary Capital Resources. However loans made by the IDB out of its Fund for Special Operations are tied to purchases....In addition, the IDB has made tied loans from funds provided by nonmembers including Canada. With certain exceptions aid made available by the European Development Fund is tied to the exports of EEC member and associated countries." (Raymond F. Mikesell, The Economics of Foreign Aid (Chicago, 1968), p. 246.

permit yet an even greater untying of aid funds.

Steps have been taken to reduce the adverse effects of aid tying on recipients. First, relative higher costs of production than elsewhere can be reduced to some extent by a careful selection of projects and supplies. Both donors attempt to exclude items for which their supply possibilities are disadvantageous. Second, overpricing due to restricted competition, can be restricted through effective procurement procedures and careful supervision of prices. Both countries attempt to ensure competitive bidding as one way of mitigating any adverse effects on aid recipients. In addition, Canada permits direct procurement in certain circumstances. Finally, most aid funds are normally used to purchase precisely those goods for which both donors are most competitive and a large amount of tied aid is used to finance contracts awarded due to successful international bidding.

CHAPTER IV

TECHNICAL ASSISTANCE

In recent years growing importance has been attached by donors to education, health, and other factors in human resource development. As a result, bilateral technical assistance contributions within official aid programmes are increasing more rapidly than financial flows.¹

Technical assistance, in fact, is a necessary complement of financial aid in that it can improve the absorptive capacity of LDC's and contribute to greater developmental returns.

General Trends

The technical assistance programmes of the two donors have undergone both rapid and important compositional changes. The Canadian programme has registered annual increases averaging 40 per cent and West German technical assistance, at 14 per cent in 1962, now accounts for more than 25 per cent of its official bilateral programme.

Some of the important trends in the different categories of technical assistance for the two countries may be summed

¹ DAC, Review, 1968, pp. 53 and 57.

TABLE 16
TECHNICAL ASSISTANCE - SUMMARY, 1962-1967

	Canada						West Germany					
	1962	1963	1964	1965	1966	1967	1962	1963	1964	1965	1966	1967
I. OFFICIAL FINANCIAL CONTRIBUTIONS												
1. Bilateral (Million US Dollars)												
a) Commitments	4.91	5.75	10.06	12.65	19.21	22.42	75.81	91.14	101.33	109.50	118.20	145.70
b) Disbursements	4.17	5.85	8.26	12.65	19.21	22.66	51.00	76.50	85.70	93.58	105.70	126.06
Technical Assistance as Percentage of Official Bilateral Net Contributions (per cent)												
	10.0	6.5	7.4	13.2	10.6	13.6	14.0	18.6	20.7	21.7	23.3	26.2
2. Multilateral (Million US Dollars)												
Pledged Contributions to UN/EPTA and UN Special Fund ^b	3.83	2.82	4.50	6.77	8.83	9.94	7.50	8.00	8.00	8.10	9.10	10.0
II. NUMBER OF PUBLICLY FINANCED PERSONS												
1. Total Number of Students and Trainees												
a) Students	682	970	1,188 ^a 1,752	2,274	2,904	3,385	7,846	8,549	7,610 13,609	10,588	13,143	23,632
b) Trainees			...	1,179	2,141	1,870			7,609	5,076	5,183	4,838
Trained in donor country												
			1,188 1,752	2,274	2,904	3,322			6,000 13,609	5,512	7,960	18,794 ^c
2. Total number of Technical Assistance Personnel												
a) Personnel in Education of which: Teachers	182	242	409 544	876	1,714	2,393	611	928	1,357 1,786	2,560	3,680	5,622
b) Operational Personnel	137	179	317 392	688	873	967	234	484	463 629	762	806	2,535 ^d
c) Advisers	45	63	92/152	188	292	323	75	120	894/1157	429	473	645
d) Volunteers of which: Teachers			549* 1,103	1,103	549	1,103	302	324	...	476	835	1,566
			400	400	761	761			...	56	198	581

Sources: OECD, The Flow of Financial Resources 1961-1965, p. 229; DAC, Review, 1965, pp. 140-141; and EAO.

Note: ... indicates "not available separately but included in the total".

a. A new statistical basis was established in 1964. Data in 1962, 1963 and the upper number in 1964 refer either to "new arrivals during the year", or to "numbers present at a given date". The lower number in 1964 and the data in later years are based on number of persons financed during the year.

b. Data refer to contributions pledged to the United Nations Development Programme.

c. Including about 8,000 trainees in the country of origin and 2,000 in third countries not reported in previous years.

d. Including about 500 teachers and 500 assistants reported for the first time.

e. CUSO

TABLE 17

PUBLICLY FINANCED STUDENTS FROM LDC'S BY MAIN FIELDS OF STUDY AND COUNTRIES OF TRAINING
(Number of Persons)

	Canada			West Germany		
	1965	1966	1967	1965	1966	1967
TOTAL STUDENTS	1,179	2,141	1,870	5,076	5,183	4,838
I. <u>Main Fields of Study</u>						
TOTAL UNDERGRADUATE AND POST-GRADUATE EDUCATION	1,179	2,141	1,870	5,076	5,183	4,838
Humanities	68	99	71	448	432	398
Education	113	248	200	26	25	24
Fine Arts	23	28	55	134	130	120
Law	3	10	8	74	61	59
Social Sciences	79	368	102	43	34	32
Economic and Related Subjects	76	189	158	140	183	170
Natural Sciences	248	285	290	629	693	638
Engineering	303	461	514	1,417	1,877	1,730
Medical Sciences	157	268	225	822	992	916
Agriculture	107	185	186	62	84	78
Other and Unspecified	2		61	1,281	672	673
II. <u>Countries of Training</u>						
1. In the donor country	1,179	2,141	1,809	5,076	5,051	4,663
a) Undergraduate	769	1,056	1,177	3,641	4,084	3,900
b) Postgraduate	410	1,085	632	1,435	967	763
2. In the country of origin					132	175
3. In third countries			61			

Sources: DAC, Review, 1967, pp. 198-9 and EAO.

TABLE 18

PUBLICLY FINANCED TRAINEES FROM LDC'S BY MAIN FIELDS OF STUDY
(Number of Persons)

	Canada			West Germany		
	1965	1966	1967	1965	1966	1967
TOTAL TRAINEES	1,095	763	1,515	5,512	7,960	18,794
I. Main Fields of Study						
Economic Planning, Surveys, etc.	37	36	44	99	88	100
Public Administration	124	14	191	306	749	855
Power, Transport & Communication	149	264	337	347	154	176
Industry, Mining & Handicraft	179	171	299	2,023	2,371	2,705
Trade, Banking, Insurance, Tourism	57	22	198	91	518	591
Agriculture	49	31	74	749	278	317
Health Services	126	72	167	334	216	246
Education	208	6	101	59	178	203
Social Services & Labour Relations	151	62	104	402	142	162
Other and Unspecified	15	85		1,102	3,266	1,845
II. Countries of Training						
1. In the donor country	1,095	763	1,513	5,512	6,311	7,200
a) Senior level	326	371	805	961	1,215	1,386
b) Middle level	576	307	522	4,195	4,017	4,583
c) Manual and clerical workers	193	85	186	356	1,079	1,231
2. In the country of origin					574	8,865 ^a
3. In third countries			2		1,075	2,729 ^b

Sources: DAC, Review, 1967, pp. 200-1 and EAO.

- a. The increase over 1966 is largely due to the fact that some 8000 persons were not included in the previous year.
- b. Some 2000 persons were not included in 1966.

TABLE 19

PUBLICLY FINANCED EXPERTS IN EDUCATION IN LDC'S BY LEVELS OF TEACHING
(Number of Persons)

	Canada			West Germany		
	1965	1966	1967	1965	1966	1967
TOTAL EXPERTS IN EDUCATION	688	873	967	762	806	2,535 ^a
I. TOTAL TEACHERS	618	799	897	754	795	1,960
Primary and Secondary Education	256	363	443	1	1	3
University and Higher Technical Education	98	123	137	331	368	377
Teacher Training	183	216	220	3	7	22
Technical and Vocational Training	81	97	97	174	175	329
Other and Unspecified				245	244	1,229
II. EDUCATIONAL ADMINISTRATORS	39	51	42	6	8	566
III. EDUCATIONAL ADVISERS	31	23	28	2	3	9

Sources: DAC, Review, 1967, pp. 202-3 and EAO.

a Including about 500 teachers and 500 assistants reported for the first time.

TABLE 20

PUBLICLY FINANCED OPERATIONAL PERSONNEL AND ADVISERS IN LDC'S BY FIELDS OF ACTIVITY
(Number of Persons)

	Canada			West Germany		
	1965	1966	1967	1965	1966	1967
TOTAL ADVISERS	188	292	323	476	835	792
Economic Planning, Surveys, etc.	21	15	29	66	114	108
Public Administration		4	2	57	79	74
Power, Transport and Communication	54	52	53	53	55	53
Industry, Mining and Handicraft	29	42	21	63	74	70
Trade, Banking, Insurance, Tourism	2	4	12	38	75	71
Agriculture	39	63	69	164	177	168
Health Services	39	103	129	7	16	15
Social Services and Labour Relations	4	9	8	21	83	79
Other and Unspecified				7	162	154
TOTAL OPERATIONAL PERSONNEL				429	473	645
Economic Planning, Surveys, etc.				5	6	
Public Administration				64	85	116
Power, Transport and Communication				20	23	32
Industry, Mining and Handicraft				124	135	186
Trade, Banking, Insurance, Tourism				8	12	17
Agriculture				88	95	127
Health Services				84	73	100
Social Services and Labour Relations				15	27	36
Other and Unspecified				26	18	25

Sources: For Advisers, DAC, Review, 1967, pp. 206-7 and EAO.

For Operational Personnel, DAC, Review, 1967, pp. 204-5 and EAO.

TABLE 21

PUBLICLY FINANCED VOLUNTEERS IN LDC'S BY LEVELS OF TEACHING AND FIELDS OF ACTIVITY
(Number of Persons)

	Canada			West Germany		
	1965	1966	1967	1965	1966	1967
TOTAL VOLUNTEERS	549	1,103	893	1,566	1,650	
VOLUNTEERS IN EDUCATION (TEACHERS)	400	761	56	198	581	
Primary and Secondary Education	369	628		131	3	
University and Higher Technical Education	21	48		8	18	
Technical and Vocational Training	10	33		59	150	
Other and Unspecified		52	56		410	
OTHER VOLUNTEERS	149	342	837	1,368	1,069	
Economic Planning, Surveys, etc.	1	7		1		
Public Administration	6	7		7		
Power, Transport and Communication	11	15		635	398	
Industry, Mining and Handicraft	2	18				
Trade, Banking, Insurance, Tourism	1	4		7		
Agriculture	12	55		143	92	
Health Services	77	189		339	203	
Social Services and Labour Relations	24	29		173	374	
Other and Unspecified	15	18	837	63	2	

Sources: DAC, Review, 1967, pp. 208-9 and EAO.

TABLE 22

PUBLICLY FINANCED EXPERTS AND VOLUNTEERS IN LDC'S BY CATEGORIES OF PERSONNEL
(Number of Persons)

	Canada				West Germany			
	1965	1966	1967	1968	1969	1970	1971	1972
TOTAL PERSONNEL FINANCED	876	1,714	2,393	2,560	3,680	5,622		
1. <u>Experts in Education</u>								
a) Teachers	688	873	967	762	806	2,535		
of which:	618	799	897	754	795	1,960		
Teacher Trainers	183	216	220	3	7	22		
Language Teachers	119	220	127	221	252	793		
b) Educational Administrators	39	51	42	6	8	566		
c) Educational Advisers	31	23	28	2	3	9		
2. <u>Operational Personnel</u>				429	473	645		
of which:								
Auxiliary Personnel				26	18	25		
3. <u>Advisers</u>	188	292	323	476	835	792		
4. <u>Volunteers</u>		549	1,103	893	1,566	1,650		
of which:								
Teachers		400	761	56	198	581		
Others		149	342	837	1,368	1,069		

Source: EAO. In 1964 about 150 volunteers sponsored by private voluntary organizations were provided with transport at Canadian government expense.

up as:²

- (a) a significant expansion in the number of publicly financed persons since 1964: in the Canadian programme the total number of government-sponsored students and trainees nearly doubled and the number of technical assistance personnel more than quadrupled since 1964; West German government-sponsored students and trainees almost doubled and technical assistance personnel more than doubled in number during this period;
- (b) a strong rise in the numbers of educational personnel, mainly teachers, supplied by both countries; the total number of Canadian experts in education more than doubled and West German numbers tripled;
- (c) a steady increase in the provision of West German operational personnel; Canada does not provide publicly financed operational personnel to LDC's;
- (d) a substantial expansion in the number of

² See Table 9 for a statistical summary of technical assistance trends.

advisers;³ Canadian numbers doubled and their West German counterparts increased equally rapidly;

- (e) an important increase in the number of officially sponsored volunteers. The Canadian volunteer programme - Canadian University Service Overseas (CUSO), which began in 1966 more than doubled in number in 1967. The number of West German volunteers also rose substantially. A large number of these are teachers, while the remainder are essential middle-level personnel for a large variety of operational tasks, chiefly in the area of community development.

Figures 1 and 2 portray the distribution of technical assistance personnel by main fields of activity in 1967. The education sector was by far the largest single element in each programme. Canada's contribution was concentrated in primary and secondary education, with a substantial number in other educational sectors, chiefly teacher training. West

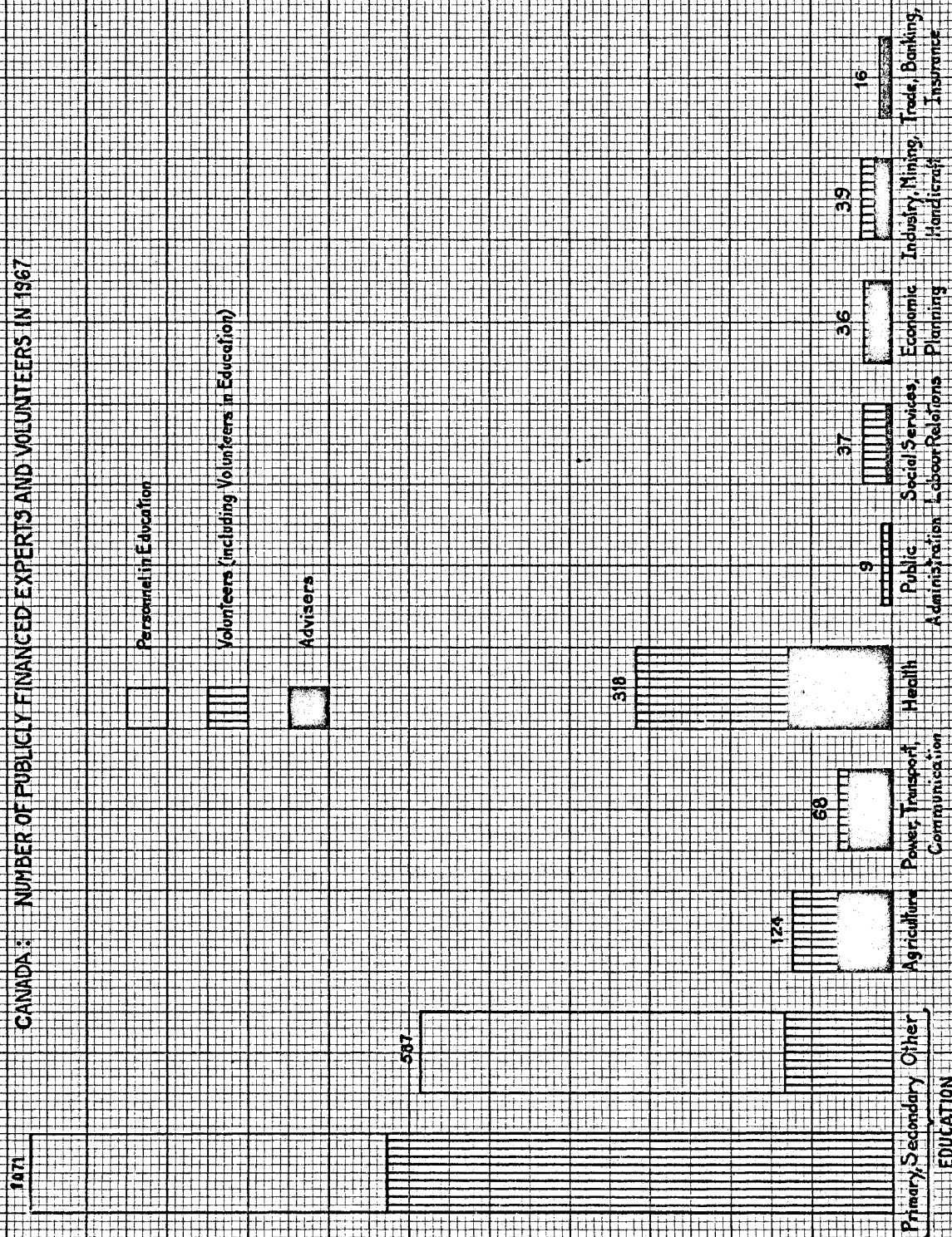
3 The following definitions distinguish among expert technical assistance personnel assigned to LDC's: personnel in education, other operational personnel and advisers.

Personnel in Education include teachers, educational administrators and educational advisers.

Operational Personnel are experts assigned to LDC's for operational tasks other than education.

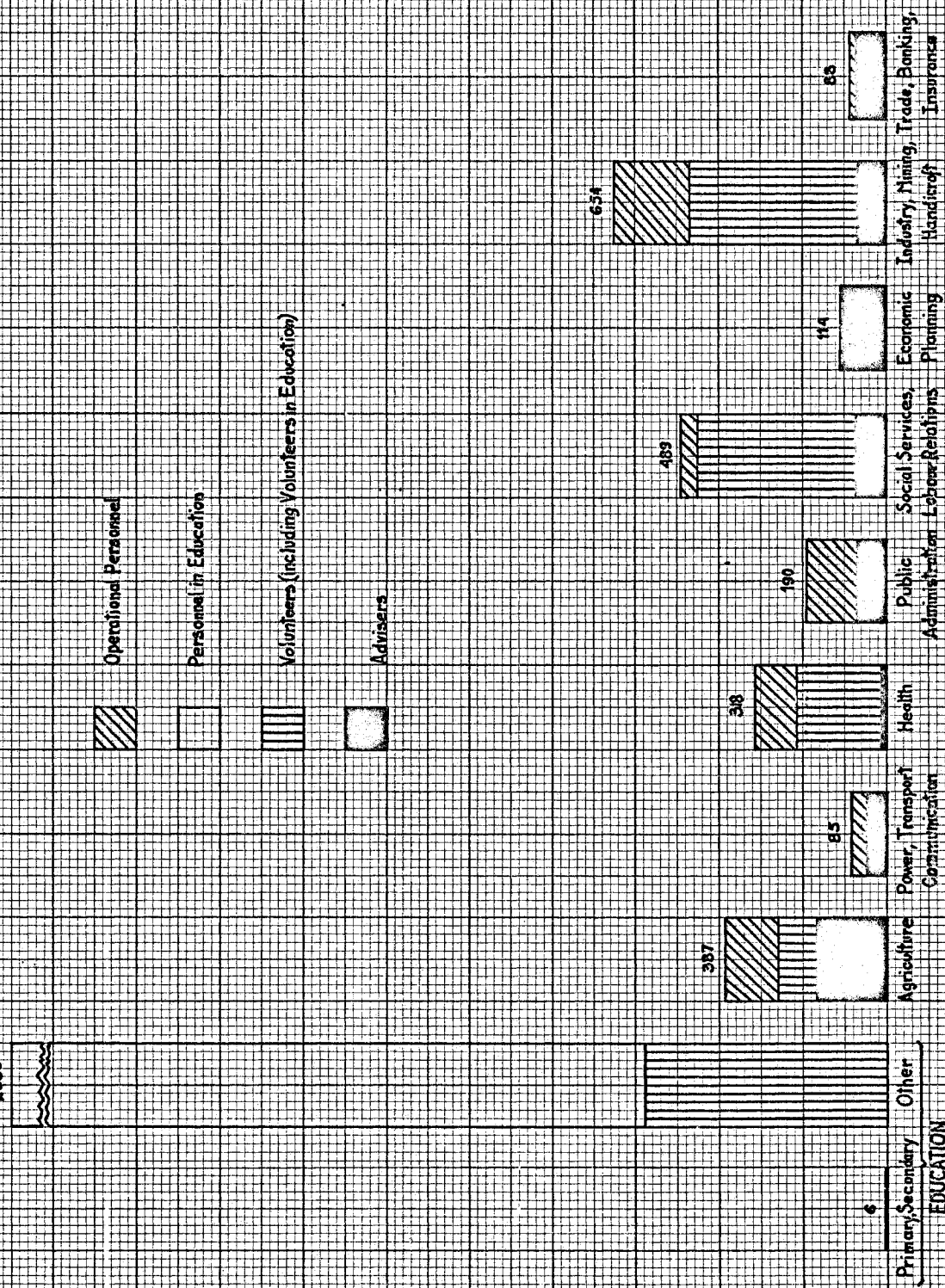
Advisers include all non-educational, non-operational personnel whose role is to provide expertise in clearly specified areas within the framework of missions of limited duration.

FIGURE 1
CANADA: NUMBER OF PUBLICLY FINANCED EXPERTS AND VOLUNTEERS IN 1967



Source: Tables 19, 20, 21

FIGURE 2
WEST GERMANY: NUMBER OF PUBLICLY FINANCED EXPERTS AND VOLUNTEERS IN 1967



Source: Tables 19, 20, 21

German personnel in education were almost exclusively concentrated in other educational sectors such as: teachers in technical and vocational training, in university and higher technical education, in teacher training, educational administration, advisers and unspecified volunteers. The numbers in the public administration sector were quite small. Whereas the agricultural and health service sectors represented a large fraction of the technical assistance personnel of both countries. West Germany also had a large number of publicly financed volunteers in such fields as "social services and labour relations" and in "industry, mining and handicraft".

Canadian Technical Assistance

Aid to education is the most prominent feature of the Canadian programme. This emphasis on education has resulted in a large increase since 1962 both in the number of teachers posted overseas and in the number of students brought to Canada. One significant and unique Canadian contribution in educational assistance lies in the ability to aid both English-speaking and French-speaking countries.

Disbursement figures for technical assistance exclude capital expenditures and such items as the construction or equipment of schools and the carrying out of pre-investment surveys which other countries classify as technical assistance. These are excluded for administrative reasons and are

shown under capital assistance.⁴

Canada gives priority to requests for highly qualified teachers and teacher trainers. Also, special emphasis in the filling of requests is given to languages, mathematics, science and technical subjects as the disciplines most directly useful for social and economic development. Furthermore, the Canadian authorities particularly favour composite projects; that is, they provide for both the building and equipping of schools, as well as the initial staff and the training of future staff in Canada.⁵

As a result of a recent review of its programme, Canada now tailors its technical assistance contributions to the specific needs and priorities of the recipient country. The contributions to each country will be less varied and wherever possible integrated so as to conform closely to priority manpower needs in LDC's. In keeping with this objective, recipient countries are now requested to consolidate their technical assistance requests so as to distinguish their priorities; whereas formerly recipient countries submitted separate requests for each of the three forms of technical assistance - advisers, teachers and trainees. In addition,

⁴ Standing Committee on External Relations (Ottawa, 1967), p. 38.

⁵ For a specific example of a composite type project see M. F. Strong, "Canadian Development Assistance in the Field of Education," mimeographed speech delivered on March 11, 1968, before the University Women's Club (External Aid Office, Ottawa), p. 10.

Canada offers training in a select number of fields for each recipient country, as for example, practical group-training programs such as public administration, co-operatives and labour management, closely oriented to the recipients' manpower needs.⁶ These programmes and the resumption of training programs disrupted by political factors, resulted in a substantial increase in the number of trainees in Canada from 763 in 1966 to 1,515 in 1967.

The educational programme depends on arrangements with several Canadian universities and on the assistance of provincial departments of education for teacher recruitment. The Canadian university provides a minimum number of professors over a period of years to corresponding institutions in LDC's. It also provides for the training of counterparts in Canada, with all costs paid out of government aid funds. Special arrangements exist also with certain Canadian universities to deal with particular aspects of the administration and counselling of trainees.

In the past, almost all student and trainee activities have been carried on in Canada. Recently, however, a third-country training program has begun under the administration

6 "A special group course in Public Administration has been worked out at Carleton University. Other group courses include Community Development at the Coady Institute, St. Francis Xavier University; Cooperatives Development at the Coady Institute and Western Cooperative College, Saskatoon; and Labour Leader Training at the Labour College of Canada, Montreal." (M.F. Strong, op. cit., pp. 11-12)

of the University of the West Indies. Under this programme 61 students from the Leeward and Windward Islands had their studies financed at the University in 1967. It is expected that Canada will expand this type of third-country training programme in the future.

Volunteers are also sent to LDC's as teachers under the auspices of the Canadian University Service Overseas (CUSO). During 1965 the first direct public grant to CUSO was made; until then it had been directed and supported by private citizens for several years. The number of volunteers increased greatly in 1967 and the Canadian government supplied 80 per cent of the financial requirements.

With regard to its geographic distribution,⁷ Canadian assistance to education is similar to its overall programme in that preference is given to those countries with whom it has traditional ties, particularly Commonwealth countries in Africa, Asia and the West Indies, but also increasingly to French-speaking countries in Africa. In close cooperation with other donors, Canada channels most of her assistance through one of the following: the Colombo Plan; the Commonwealth Scholarship and Fellowship Plan; the Special Commonwealth African Assistance Plan; the Commonwealth Caribbean Assistance Programme, and the French-speaking Africa Programme. Future aid to education will tend to be concentrated on

⁷ See Table 16 for a geographic breakdown of Canadian personnel in education.

TABLE 23
GEOGRAPHIC BREAKDOWN OF CANADIAN PERSONNEL IN EDUCATION

	Teachers			Volunteers			Students		
	1965	1966	1967	1965	1966	1967	1965	1966	1967
<u>AFRICA</u>	<u>444</u>	<u>574</u>	<u>665</u>		<u>250</u>	<u>491</u>	<u>264</u>	<u>634</u>	<u>505</u>
Nigeria	79	83	66		60	60	37	86	55
Ghana	77	80	101		54	130	48	93	109
Tanzania	49	61	69		16	43	7	41	17
Cameroun	30	48	69		-	4	7	21	22
Tunisia	24	38	53		-	-		1	1
<u>AMERICA</u>	<u>96</u>	<u>135</u>	<u>136</u>		<u>91</u>	<u>136</u>	<u>190</u>	<u>392</u>	<u>344</u>
Trinidad	34	51	37		18	24	37	64	41
West Indies	35	46	42		16	32	76	167	160
Jamaica	18	27	35		19	51	40	57	55
<u>ASIA</u>	<u>76</u>	<u>88</u>	<u>94</u>		<u>59</u>	<u>91</u>	<u>713</u>	<u>1097</u>	<u>945</u>
Malaysia	32	29	31		27	36	179	228	223
Cambodia	7	14	13		-	-	14	10	9
India	7	5	2		27	37	71	105	68
Vietnam	1	2	2		-	-	189	236	249
<u>OTHER</u>	<u>2</u>	<u>2</u>	<u>2</u>		<u>-</u>	<u>-</u>	<u>12</u>	<u>18</u>	<u>15</u>
<u>TOTAL</u>	<u>618</u>	<u>799</u>	<u>892</u>		<u>400</u>	<u>718</u>	<u>1179</u>	<u>2141</u>	<u>1809</u>

Source: EAO

Nigeria, Ghana, East Africa and the Commonwealth Caribbean since they are expected to utilize educational assistance most effectively at their present stage of development. In future technical assistance will be increasingly linked to capital assistance so as to integrate the total assistance programme more effectively.

West German Technical Assistance

A sizeable increase since 1962 has occurred in West German contributions to technical assistance. 1967 disbursements of \$126 million were 19 per cent higher than the previous year's level and two and a half times higher than in 1962. They accounted for 26 per cent of official bilateral net contributions in 1967, as compared with 23 per cent in 1966 and 14 per cent in 1962. Commitments of \$146 million in 1967 signify a further increase of disbursements.⁸

Substantial increases occurred in 1967 in the number of publicly financed persons. These increases, which were especially large for trainees and educational personnel, were due to the inclusion of short-term trainees and instructors (primarily in the framework of socio-political courses held principally in Latin America) which were not counted before. If these categories are excluded, West German technical assistance in terms of manpower, expanded only slightly in 1967 and there was even a decrease in such categories as publicly financed students and advisers. However, the

⁸ See Table 9.

number of students and trainees trained abroad continued to increase, reflecting a policy shift towards overseas training.⁹

West Germany is carrying out a thorough review of all current and planned projects (about 3000) which may result in a modification of the technical assistance. It is expected that one result of the review will be a reduction in the number and variety of West German technical assistance projects. Particularly effective standard types of projects are to be developed which may be carried out in larger numbers. Another outcome, apart from limiting technical assistance to fewer and more effective project types, will likely be a greater geographic concentration on specific countries.

The original intent of German technical cooperation had been to establish pilot projects, a "help towards self-help" project. The Germans had thought that in a year or two after a program commenced, trainees would be able to take over the task from their instructors, and then as more and more natives were trained more schools, etc., could be established. The German experience was that it would take at least five years of training and demonstration before an adequate number of counterparts could be trained. German officials have resigned themselves to the fact that once a German training team leaves a project, efficiency will be cut in half. One difficulty with German technical co-operation projects is that by definition they must be "pilot" projects in the sense that they do not exist in the pioneer sense. They do not wish to duplicate any projects in operation.¹⁰

9 See Table 10, line II, 2.

10 Jack L. Knusel, West German Aid to Developing Nations (New York, 1968), pp. 174-175.

The difficulty experienced with their pilot projects arose out of an important consideration of West German aid policy; namely, the avoidance of a prolonged dependence of recipient nations on the donor country. To avoid the decline in efficiency after conclusion of the project and to accelerate the transfer to recipient's control, more than half of LDC-fellowship-holders in West Germany have been obliged to work, after the end of their training period, at projects financed by West Germany in their countries where they replace German experts.

West Germany is also encouraging partnership arrangements, or other forms of close cooperation, between institutions in Germany; for example universities, training institutes, hospitals, and even municipalities and their respective counterparts in LDC's.

The practical difficulties that stem from Germany's lack of traditional relationships with developing countries are nowhere more apparent than in the search for qualified German personnel willing to serve overseas....

The European languages which are most widely understood in developing countries are English, French and Spanish. Germany's colonial empire was neither big enough nor sufficiently long-lived to lead to an increase in the use of German as an international language. This added obstacle to communication has effectively prevented Germany from giving assistance in forms in which the use of language is of central importance It is significant that the Germans accept increased commitments with obvious enthusiasm in the few countries, such as Afghanistan, where their language is widely understood.¹¹

¹¹ John White, German Aid (London, 1965), pp. 165-166.

West German aid to education can be divided into two categories: technical training, mainly for middle-level personnel in Germany as well as in LDC's and the strengthening of educational institutions in LDC's. The latter programme with respect to higher and adult education originated in 1963.

As a share of technical assistance contributions, aid to education, represented about 45 per cent in both 1965 and 1966. This does not include financial assistance to education - except for equipment. It is, however, one of the principles of West German technical assistance that school premises, construction costs and so forth, are to be borne by the recipient government.

The German contribution is limited to the planning of the technical or vocational institute, the supplying of technical equipment and German teaching and may include the training of local personnel in West Germany. The recipient government, or one of its agencies, is responsible for the administration and running costs of the project. In addition to these, the recipient country has to provide the site, power, water and other services, non-technical equipment, as well as local teachers, administrative and other personnel.¹²

Disbursements for technical training institutes have decreased somewhat in 1966. This is partly due to the preference given to the improvement of existing schools, and

12. Ibid. p. 163.

expenditures on those where prior commitments existed.

These technical and vocational training institutions are intended to serve as educational models for recipient countries in accordance with a principle of West German development aid which rates highly the multiplying effect of pilot projects. In addition, technical and vocational training is also provided in West Germany on a relatively large scale in close cooperation with the private sector. The government assists trainees through the Federal Labour Exchange in finding appropriate training positions in industry and by financing some of their expenditures.

Educational assistance projects, in general, are intended to achieve long-term results by establishing permanent educational institutions in recipient countries. The main areas of activities are university partnerships, support of research institutes, local scholarship programmes, promotion of student organizations, teacher training and the establishment of cultural centres.

The German Volunteer Service, which is administered by a public company, began in 1964 with 117 volunteers. By 1965, its members had increased to 893, of which 56 were active as teachers. In 1966 there were 1,566 volunteers overseas, of which 198 were teachers. By 1967, there were 1,650 volunteers in the field and of these 581 were teachers. The German Volunteer Service is mainly composed of middle-level personnel with a good vocational training background

and experience. There are very few university graduates among the volunteers.

The geographic distribution of teachers is somewhat similar to that of the students:¹³ over 40 per cent in Asia, over 20 per cent in Africa, over 15 per cent in Latin America and 10 per cent in Europe. The volunteers in teaching in 1966 were evenly distributed among three continents but in 1967 Africa received more than the other continents. Of the nearly 5,000 students in higher education, over 40 per cent came from Asian countries, particularly from Iran and India. Greece and Turkey were next in importance, followed by Nigeria, the U.A.R. and Ghana.

¹³ See Table 17.

TABLE 24

GEOGRAPHIC BREAKDOWN OF WEST GERMAN PERSONNEL IN EDUCATION

	Teachers			Volunteers			Students		
	1965	1966	1967	1965	1966	1967	1965	1966	1967
<u>EUROPE</u>	<u>79</u>	<u>77</u>	<u>127</u>			<u>3</u>	<u>1,046</u>	<u>917</u>	<u>846</u>
Greece	21	18	10				441	429	396
Spain	25	24	42			1	101	...	92
Turkey	28	30	61			2	391	272	250
<u>AFRICA</u>	<u>179</u>	<u>197</u>	<u>513</u>	<u>9</u>	<u>69</u>	<u>281</u>	<u>1,067</u>	<u>1,060</u>	<u>979</u>
UAR	62	63	169				223	167	156
Ghana	3	...				7	158	145	133
Nigeria	2	...	13			24	235	249	229
Madagascar	9	8	32		2	19	9	...	8
Tanzania	13	14	39	1	3	34	31	...	27
<u>AMERICA</u>	<u>143</u>	<u>151</u>	<u>368</u>		<u>61</u>	<u>155</u>	<u>863</u>	<u>788</u>	<u>729</u>
Argentina	21	22	48			3	104	102	95
Brazil	22	23	41		11	45	126	109	101
Chile	33	40	105		20	26	136	117	107
Colombia	20	19	54		2	2	66	...	62
<u>ASIA</u>	<u>353</u>	<u>369</u>	<u>948</u>	<u>47</u>	<u>68</u>	<u>104</u>	<u>2,016</u>	<u>2,255</u>	<u>2,081</u>
Iran	29	29	79		1	3	407	619	572
Iraq	22	21	66		1	2	94	...	92
Syria	22	22	69			1	162	164	151
Afghanistan	79	94	286	22	8	12	101	123	114
India	48	45	60	17	19	39	487	446	410
Thailand	23	22	69		1		71	...	61
Indonesia	15	...	31			7	101	96	88
Vietnam	18	22	61			4	33	...	17
<u>OCEANIA</u>						<u>38</u>		<u>1</u>	<u>1</u>
<u>UNSPECIFIED</u>		1	4				84	162	212
<u>TOTAL</u>	<u>754</u>	<u>795</u>	<u>1,960</u>	<u>56</u>	<u>198</u>	<u>581</u>	<u>5,076</u>	<u>5,183</u>	<u>4,838</u>

Source: EAO;

... Not available separately but included in total.

Summary

Technical assistance is the sector of the two official aid programmes where the most notable expansion has occurred in recent years. It also appears to be the sector which has the most promising scope for a long-term expansion. Recent reviews by both countries will have important effects on future technical assistance contributions to LDC's. Canadian contributions will be less varied and more closely integrated with the priority manpower needs of recipient countries. Similarly, the West German review is expected to result in a reduction of the number and variety of technical assistance projects and an increase in the number of particularly effective standard types of projects.

West Germany seeks to improve the effectiveness of its aid by an improved coordination of the various types of assistance. This applies, in particular, to coordination between capital and technical assistance, but also to coordination between the various types of technical assistance. The result will mean a greater geographic concentration on specific countries, within which projects will be both larger and closely interrelated.

Both countries are also moving in the direction of more overseas training. The West German technical assistance programme, in particular, places increasing emphasis on local training in recipient countries at training institutes

financed by West Germany. In addition, a substantial proportion of trainees in West Germany receive training with a view to later employment at capital projects financed by West Germany. Canadian third-country training is extended in recognition of its advantages. It is expected that it may develop and strengthen local institutions and offer training more suited to specific student needs than the type of training available in Canada.

The rapid growth in the number of volunteers sent abroad by both countries is noteworthy. In particular, the West German emphasis on middle-level personnel with vocational training and experience and the relatively small members of university students is significant.

CHAPTER V

DISCUSSION

Between 1962 and 1967 important developments occurred in the foreign aid programmes of Canada and West Germany. The magnitude of the flows of development aid from both donors has increased, with Canada showing the greater relative improvement. A gradual improvement has also taken place in the terms of aid, but loans on commercial-type projects still bear high interest rates. Both programmes have shown an increasing trend toward bilateral rather than multilateral contributions. However, some of the best features of both aid channels are now being blended in such multinational assistance coordinating arrangements as the aid consortia for India and Pakistan. Extensive use is being made of local industrial and regional development banks and intermediate credit institutions for administering bilateral aid. Such recent policy innovations as the financing of local costs, the use of "non-lapsing" and "forward commitment" authorities, the geographic concentration of aid, the simplification of procurement procedures and improved overseas administration appear to be particularly effective measures designed to improve the efficiency of the two aid programmes. Aid to education continued to be the dominant feature of their technical assistance. The shift to overseas

training, the increased coordination between capital and technical assistance and the rapid increase in the number of volunteers have made this one of the most rapidly innovating sectors of their aid programmes.

The analysis in Chapter 2 revealed the existence of a discrepancy between the real cost of aid to the donors and nominal aid totals as reported to the DAC. Canada, whose aid is predominantly in the forms of grants and soft loans, shows essentially the same aid value under the DAC method as under the discounted present value method; that is, it emerges with a "real" aid total relatively closer to officially reported levels of the DAC. West German aid, on the other hand, which is primarily in the form of hard loans, may be overstated by a considerable amount and is actually less as a proportion of GNP than it appears. For example, depending upon the discount rate used, the value of this aid was somewhere between \$294 and \$442 million (see Table 5) instead of the \$678 million reported to the DAC. This result emphasizes the need for a substantial increase in grants and a softening of terms in the West German aid programme.

Development assistance extended to LDC's has many facets and is of diverse character. In Chapter 3 some of the diverse characteristics and unique features were discussed and briefly commented on. It becomes apparent that each country has concentrated on those forms of development

assistance in which it possessed special competence and in those fields where the national experience has been of particular value. As a result of recent reviews, integrated projects which incorporate both capital aid and technical assistance are now given priority by both donors. The geographic distribution of public bilateral contributions shows that aid is being concentrated on a smaller number of recipients. Aid tying remains as an important feature of both aid programmes, although formal procurement restrictions are of lesser importance in the West German aid programme. Certain steps have already been taken to reduce the adverse effects of aid tying on recipients but both countries could do considerably more in this direction. Both countries have in fact expressed their intention to consider ways designed to reduce the scope of aid tying, provided that the major donors would participate in such a reduction. Initial steps towards removing tying restrictions could be limited to loans and credits, as against the entire range of aid transactions.

Some developments in the field of technical assistance appear to have far-reaching consequences for future aid efforts. In particular, the posting overseas of EAO officers as administrators of technical assistance programmes is an important innovation in the Canadian programme. It is indeed conceivable that aid administrators may in the future be part of Canadian and West German embassies in LDC's. In the

past, some educational institutions in the two countries have forged ties with corresponding institutions in LDC's. One of the most promising ventures and of possible interest to Canada, has been the establishment of exchange systems between West German hospitals and their counterparts abroad. This type of arrangement between institutions in developed and less-developed countries may prove to be one of the most effective ways in which assistance can be extended to LDC's.

In the future, a harmonizing of terms for individual recipients and the use of multi-stage lending procedures will help to alleviate somewhat the growing debt burden of recipient countries. An overall increase in grants and a general softening of terms has become imperative. Another way to increase the actual aid content of development assistance lies in the relaxation of tying restrictions since this permits the recipient to profit from international competition as well as reducing some of the other undesirable features associated with tied aid. Finally, the inter-relation between technical assistance and financial aid makes it desirable to coordinate them from the outset thereby contributing to the efficiency of both forms of aid.

APPENDIX A

GRANT EQUIVALENTS OF LOANS

Table 25 shows the grant equivalent of loans made at different terms and interest rates discounted at 5, 6 and 7 per cent, which reflect the alternative rates of return, for a lender government. Assume, for example, a discount rate of 6 per cent, and a 20 year loan at 4 per cent interest, with no grace period. This has a grant equivalent equal to 13.9 per cent of the face value of the loan. If the maturity period were lengthened to 40 years and the grace period to 10 years, the grant equivalent would be 24.6 per cent. Alternatively if the interest rate were reduced from 4 per cent to 2 per cent and the maturity period was 20 years and there was no grace period, the grant equivalent would rise to 27.8 per cent. If the reduction in the interest rate was accompanied by a lengthening in the maturity period from 20 to 40 years and the grace period was increased from 0 to 10 years, the grant equivalent would rise to 49.4 per cent.

Consequently, the softening of loan terms results in an increase in the real cost of the loan to the donor and it also increases the real benefits to the recipient. If a 10 per cent discount rate were used to approximate the alternative rate of return in the less-developed country, then the real benefit to the recipient would be even greater.

Table 25

Grant Equivalents of Loans Using Alternative Rates of Discount (per cent)

Rate of Interest and Maturity Period	Rate of Discount											
	5 Per Cent		6 Per Cent		7 Per Cent		10 Per Cent		10 Per Cent		10 Per Cent	
	G = 0	G = 5	G = 10	G = 0	G = 5	G = 10	G = 0	G = 5	G = 10	G = 0	G = 5	G = 10
2 per cent interest												
10 years	12.9	21.2		16.7	24.0		20.0	28.9		29.5	41.8	
20 years	22.1	27.1	31.3	27.8	34.0	39.0	32.8	40.1	45.7	45.5	54.9	61.4
30 years	28.9	34.0	37.0	35.7	40.6	45.4	41.5	47.5	52.4	54.7	62.3	67.3
40 years	34.2	38.0	41.2	41.5	46.2	49.4	47.5	52.7	56.6	60.5	66.6	73.0
3 per cent interest												
10 years	8.6	14.1		12.5	18.0		16.0	23.2		25.8	36.6	
20 years	14.7	18.1	20.9	20.8	25.5	29.2	26.3	32.2	36.6	39.8	48.0	53.7
30 years	19.3	22.6	24.6	26.8	30.5	34.9	33.2	38.1	42.0	47.8	54.5	58.9
40 years	22.8	25.4	27.4	31.1	34.6	27.0	38.0	42.2	45.4	52.9	58.2	63.8
4 per cent interest												
10 years	4.3	7.1		8.3	12.0		12.0	17.4		22.1	31.4	
20 years	7.4	9.0	10.4	13.9	17.0	19.4	19.8	24.2	21.5	34.1	41.1	46.0
30 years	9.6	11.3	12.3	17.8	20.3	22.8	24.9	28.6	31.5	41.0	46.7	50.5
40 years	11.4	12.7	13.7	20.7	23.0	24.6	28.6	31.7	34.1	45.3	50.0	54.6
5 per cent interest												
10 years	0	0		4.2	6.0		8.0	11.5		18.4	26.1	
20 years	0	0	0	6.9	8.5	9.7	13.1	16.2	18.3	28.4	34.2	38.4
30 years	0	0	0	8.9	10.2	11.3	16.6	19.0	20.9	34.2	38.9	42.0
40 years	0	0	0	10.4	11.5	12.6	19.0	21.0	22.6	37.7	41.6	45.5
6 per cent interest												
10 years	Neg.	Neg.		0	0		4.0	5.8		14.7	20.9	
20 years	Neg.	Neg.	Neg.	0	0	0	6.6	8.1	9.2	22.7	27.4	30.7
30 years	Neg.	Neg.	Neg.	0	0	0	8.4	9.6	10.6	27.4	31.1	33.6
40 years	Neg.	Neg.	Neg.	0	0	0	9.6	10.6	11.4	30.1	33.3	36.4

Source: Pincus, Trade, Aid and Development, pp. 312-313, based on an adaptation from Ohlin, Foreign Aid Policies Reconsidered, OECD, Development Centre (Paris, 1966), pp.111-12.

APPENDIX B

ABBREVIATIONS

CUSO	Canadian University Service Overseas
DAC	Development Assistance Committee (OECD)
EAO	External Aid Office (Canada) [Renamed the Canadian International Development Agency]
ECIC	Export Credits Insurance Corporation (Canada)
EEC	European Economic Community
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
KfW	Reconstruction Loan Corporation [Kreditanstalt fuer Wiederaufbau (Germany)]
OECD	Organization for Economic Cooperation and Development
UN	United Nations
UNCTAD	UN Conference on Trade and Development
UNEPTA	UN Expanded Programme of Technical Assistance
UNICEF	UN Children's Fund
UNRWA	UN Relief and Works Agency for Palestine Refugees

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VITA AUCTORIS

Personal:

Born in Peterswald, Czechoslovakia, June 4, 1942.
Obtained Canadian citizenship in December, 1958.

Education:

- 1953-1961: Elementary and Secondary Schools,
London, Ontario.
- 1961-1965: Bachelor of Arts Degree, University
of Western Ontario.
- 1965-1967: Attended University of Windsor.
- 1967-1969: Attended Queen's University at Kingston

Employment:

Teaching Assistantship, University of Windsor,
1966-1967.

The Prime Minister's Task Force on Labour Relations,
Ottawa, July-September, 1967.

Department of Energy, Mines and Resources, Policy and
Planning Branch, Ottawa, May-September, 1968.

Awards:

- 2 Province of Ontario Bursaries.
- 3 Province of Ontario Graduate Fellowships, 1966-1969.